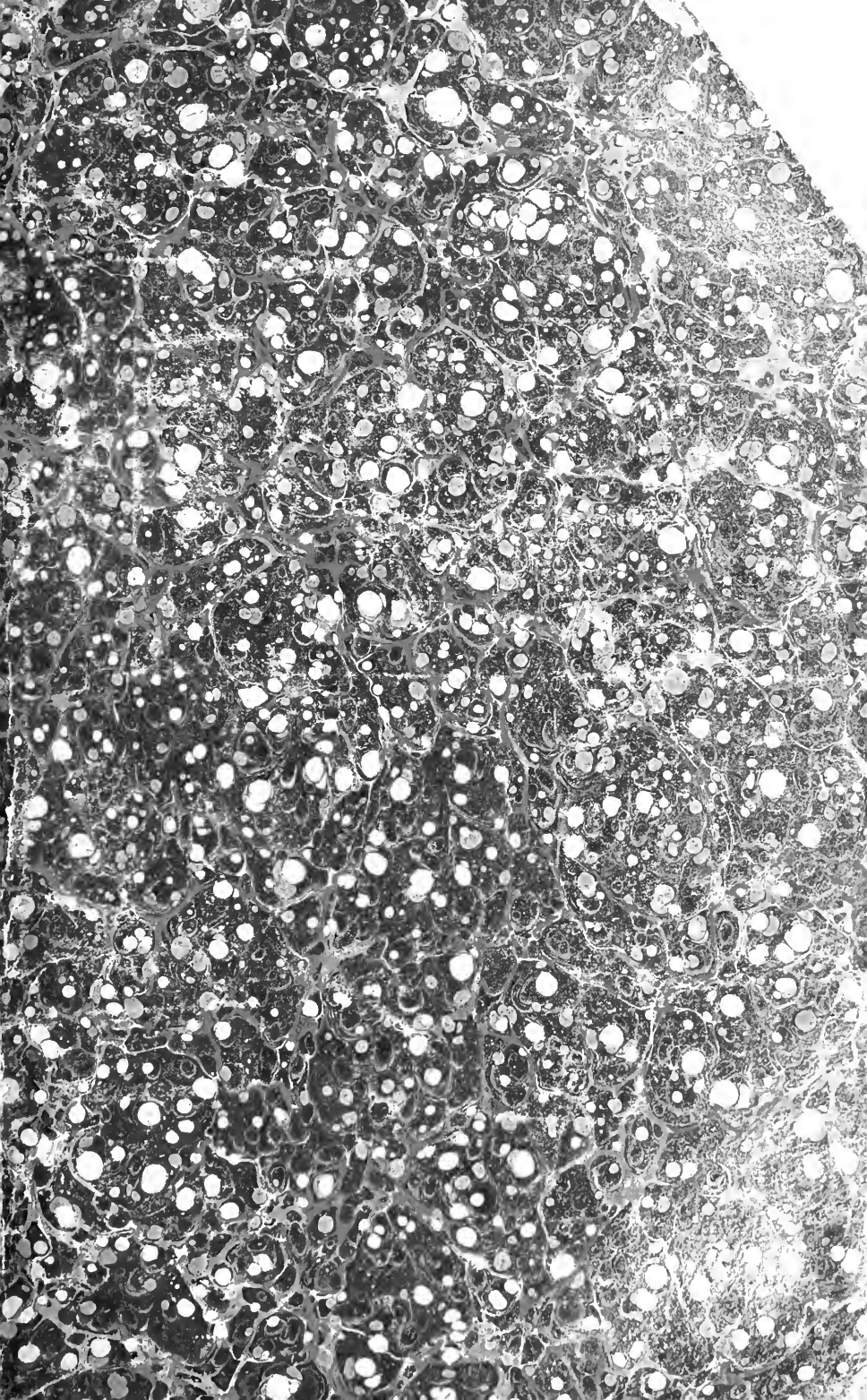


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# AN HISTORICAL STUDY OF LAW'S SYSTEM

BY

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## AN HISTORICAL STUDY OF LAW'S SYSTEM.

### I.

AT the death of Louis XIV., France was practically bankrupt. It is true, the floating debt and the capital represented by the *rentes* amounted to only about 3,000,000,000 livres; but, for the statesmen and financiers of that day, the resources of the kingdom were inadequate to meet the interest charges of this debt and at the same time pay the ordinary expenses of the government. The protracted wars during the reign of the late king had exhausted the vitality of the kingdom. Commerce was prostrate, manufactures were stagnant, agriculture had almost been abandoned. To escape service in the army or starvation at home, many laborers had fled to Italy. Deserted farms were frequently to be met with, and there were vast stretches of uncultivated land where the traveller encountered neither peasants nor domestic animals. The credit of the monarchy was almost entirely gone. In pursuance of a custom of many years' standing, the collection of a large part of the taxes had been farmed out for terms of years to individuals and to companies. To meet current expenses, the government had been obliged to negotiate with these farmers of the revenue for advances upon the taxes which they had the legal right to collect; and thus many of the important sources of revenue had been anticipated for several years.

Various forms of government notes and obligations were in circulation. Some of these had been issued in a regular manner, and some were practically certificates of indebtedness issued from the bankrupt offices of different branches of the revenue service. Double-entry book-keeping had not as yet been introduced by the government,

and no person knew the full extent of the government debt or the form in which it stood. Such patent opportunities for cheating had not been neglected; and the misery of the situation was aggravated by a large proportion of fraudulent paper, which circulated in the market among the various evidences of government indebtedness, and thus increased the government discredit. Notes issued by royal authority, which it was ordained by the Council of State should pass current between individuals, were, by the same authority, declared not to be available for payment of dues to the government. Little more confidence could be placed in the coin of the realm. The theory prevailed that the effigy of the reigning monarch and the denomination stamped upon the piece of metal which circulated as coin were what gave it value. The number of livres in the *marc* of gold or silver could be increased or diminished at the will of the ruling monarch. Theoretically, it was possible to call in all the coin of the State, and to reissue the same pieces of metal at a higher rate, the State thus receiving the benefit of the nominal increase in value.\* No measure which their ingenuity could devise had been left untried by the financiers of Louis XIV. to raise money out of the people of France. As a result there had been established an ingenious system of direct taxes, which reached the most obscure branches of industry and trade, which hindered pros-

\* These increases of denominational value were termed "*augmentations*": the reverse processes were known as "*diminutions*." The manner in which they operated can be no better disclosed than by setting before the reader the argument used by the Parliament, in a remonstrance made to the regent, against a recoinage with *augmentation*. In this case, the citizen who brought coin to the mint was permitted to add to his coin, for exchange into the new coinage, *billets d'état* to the extent of two-fifths of the amount of the coin. The result of this proceeding was stated to be substantially as follows: An individual carries to the mint 125 marcs of silver, which, at the rate of 40 livres to the marc, make 5,000 livres. He also brings 2,000 livres in *billets d'état*. He receives in new coin 7,000 livres, which, at the rate of 60 livres to the marc, weigh only 116 2-3 marcs. He loses 8 1-3 marcs on the 125 marcs which he brought, and all his notes.



perity, which even drove the laboring people over the border.

It is not to be wondered at that, with such a legacy of misery, the regent was forced to discuss the propriety of repudiating the State debts. This step, however, he declined to take openly, although many of the operations to which he actually resorted were of the same nature. The outstanding obligations of the government which were of the character of demand debts were called in. Some of them were cancelled. Others were arbitrarily reduced in amount. In place of the old evidences of debt, new notes called *billets d'état* for 250,000,000 livres, uniform in character and bearing four per cent. interest, were issued.\* The process of inspection and cancellation was known as the "*Visa*," and was carried on under the management of the Paris Brothers, who were afterwards prominent in their opposition to Law. All those who had dealt with the government or who were suspected of usury were compelled to disclose their affairs, and were subjected to arbitrary amercements of their property by the order of a "Chamber of Justice," composed of important government officials. Proceedings of this nature were not calculated to restore confidence on the part of capitalists. Yet the bare-faced corruption which had prevailed during the latter days of the preceding reign somewhat mollified popular judgment; and when the regent in various ways made feeble efforts to remove the trammels from trade, to encourage labor, to systematize taxation, and to relieve the State from the burden of payments largely absorbed in support of the privileged classes through pensions and offices, the fact that these steps were in the right direction was felt and appreciated.

\*There can be no doubt that the title "*billets d'état*" was first specifically applied to this issue of notes. Yet so competent an authority as the Baron de Nervo speaks of the government obligations called *billets d'état*, which were emitted under the preceding reign. *Les Finances Françaises sous l'Ancienne Monarchie*, par M. le Baron de Nervo, t. ii., p. 9.

While the authorities were thus groping in the dark, seeking for some ray of light which should reveal the pathway to prosperity, Law appeared upon the scene. He was born in Edinburgh, in 1671. His father was a goldsmith, which in those days meant that he was also a banker. While Law was still a mere boy, his father died, leaving his family in comfortable circumstances. Under the guidance of his mother, Law received an education suitable to his station in life and to the activity of an intellect which even in childhood gave signs of its capacity. Arrived at early manhood, he drifted to London, where he led a career of dissipation, which culminated in 1694 in a duel, in which he killed his opponent. He was thereupon tried for murder, convicted, and sentenced to death. Pending certain legal proceedings subsequent to the sentence, he escaped from prison, and fled to Amsterdam. While there, he is said to have devoted himself to a study of the Bank of Amsterdam, which was then at the height of its prosperity, and it is supposed that he learned the secrets of its mysterious management. In 1705, he submitted to the Scotch Parliament a plan for a land-bank. This scheme was published under the title "Money and Trade Considered."\* The land-bank did not meet with favor at the hands of the Scotch Parliament; and Law, shortly after submitting it, became a rover upon the continent of Europe. He is reported to have passed several years travelling from place to place, during which time he amassed a fortune by gambling and by fortunate speculations. His brain, meanwhile, was teeming with schemes of credit which should revolutionize trade and make the fortune of what-

\* John Briscoe, in 1696, unfolded a scheme for a land-bank in a publication entitled *A Discourse on the Late Fund of the Million Act, etc., together with Proposals for supplying their Majesties with Money, etc., by a National Land-bank*. Law himself referred to a project submitted by "Doctor H. C." (Hugh Chamberlayne). Other schemes of a similar nature, suggested by men of speculative temperaments, are referred to by students of the history of that time.

ever State should adopt them. These plans he freely discussed with men of power and position who would listen to him, thus establishing for himself a continental reputation as a financier who had new ideas concerning banks, and who was thoroughly competent to elucidate and defend them. While searching for some sovereign bold and needy enough to experiment with his theories, he proposed to Chamillart to establish a bank, and he forwarded to the Prince de Conti memorials, which, during the latter days of Louis XIV., were submitted to Desmarests.\* The record of an attempt in another quarter is preserved through the epigrammatic answer attributed to Victor Amadeus of Savoy, who relieved himself from the perils of the experiment by saying, "I am not rich enough to ruin myself." It is probable that, when Law came to Paris and approached the regent with his schemes, he was known in every capital in Europe as a brilliant financier, whose reasoning it was difficult to refute, but whose plans differed so materially from those then in vogue that he had not been able to find any ruler willing to adopt them. His success at the gaming-table and his career of dissipation were no bar to his influence.

Law submitted to the regent several memorials and letters in which he discussed the relations of money and credit to trade. In these papers, he referred to many of the banks then in existence; but it is evident that the banks from which he deduced most of his theories, and upon the example of which he relied for his plans for re-

\*Law's works were collected and published in 1790. The name of the editor of this work is not given on the title-page, but M. de Senovert has generally had the credit of it. Eugène Daire, in his *Économistes Financiers du XVIIIe Siècle*, republished this work, and also several fugitive pieces by Law, which were not included in Senovert's collection. In Law's "Second Memorial on Banks," p. 548 of Daire's collection, Law says, "It will be easy to prove that, if the bank had been established by M. Chamillart, when I had the honor to propose it to this minister, this establishment would have sustained the Crown and the State." Page 563, he refers in a similar way to the papers which reached Desmarests.

generating France, were the Bank of Amsterdam and the Bank of England. The former was a bank of deposit. The merchant deposited a sum of money, and in return therefor received on the books of the bank a credit. The money, once in the vaults of the bank, was supposed to remain there permanently. Its place in the currency of the world was supplied by the bank credit, which had a *quasi* circulation at Amsterdam. If the merchant wished to make use of his credit or of any portion of it, he gave an order to have a transfer made upon the books of the bank. Coins of all sorts and of every condition were received on deposit, but credits were adjusted in terms of a fixed standard adopted by the bank. Bills of exchange could thus be drawn in terms which avoided the embarrassments arising from *augmentations* and *diminutions*, and from clipped and sweated coin. Confidence in the bank was complete, and bank credits were more available in Amsterdam than coin. Special deposits were permitted in cases where the merchant expected soon to require the specific use of coin; but it is supposed that the general equilibrium between coin and bank credits was preserved through the medium of brokers, who daily dealt in bank credits on the Dam, and who, whenever there was a special demand for coin, always stood ready to purchase credits. Thus, a credit at the bank could always be converted into coin, and fluctuations were avoided. The Bank of England was based upon a different plan. Like that of the Bank of Venice, its foundation was government credit. It was organized for the purpose of lending its capital to the government, and thus it became a sort of fiscal agent. No power was given the corporation to issue bills, but it was assumed that it was conveyed in the general powers of the act under which the bank was organized. Deposits were received, accounts with depositors were opened, and the bank very soon exercised the various powers and performed the several functions which it has

continued to do to the present time. It became, in short, a bank of discount and circulation, which received deposits from merchants and the capital of which was in the form of a government loan.

The constitution and management of these and of other prominent European banks had convinced Law that, if confidence could be restored in France and the people could be induced to treat with a bank, as the merchants in Amsterdam did with their bank, the entire coin of the realm could be drawn into its vaults; a large amount of paper currency could be floated, and would be preferred to coin as a circulating medium; the bank, like the Bank of England, could act as agent of the government, and, if it should receive all the taxes, the credit thereby gained would enable it to float still more paper. The source of prosperity in any country he attributed to the abundance of money. Credit was the equivalent of money. By means of the increase of the circulating medium, interest on the debt could be reduced, and perhaps the principal could be redeemed. Trade and manufactures would be stimulated, and from the more prosperous country a much larger revenue could be collected than could possibly be squeezed out of the unfortunate people as they were then situated. Such a bank would be more powerful than the Bank of Amsterdam, because it could make use of a portion of its deposits, reserving only a portion to redeem its bills. As the depository of all the coin in the realm and the receiver of all the taxes, it would also surpass the Bank of England in strength.

The possibility of founding such a bank was based, first, upon the establishment of confidence; and, second, upon a series of propositions which Law elaborated, and which have been epitomized by Forbonnais\* substantially as follows:—

1. That all materials suitable for coinage may be converted into money.

\* *Recherches et Considérations sur les Finances de France.* Basle, 1758.

2. That the abundance of money is the condition on which depend labor, husbandry, and population.

3. That paper is more suitable than the metals for a circulating medium.

In developing this last proposition, Law dwelt upon the fact that, by *augmentations* and *diminutions* and by changes of standard of fineness, sovereigns had the power to make a metallic currency uncertain in value; and, further, that the value of gold and silver coin is affected by the market price of ingots. This price, he said, was governed by the quantity imported, and thus the value of the coin was in a measure dependent upon foreign powers. Paper having no intrinsic value was not affected by fluctuations of the market. The quantity could always be proportioned to the demand. Notes could be protected against fluctuations in value, arising from *augmentations* and *diminutions*, by expressing their denominations in coin of specified weight and standard. This would also act as a protection against runs upon the bank, as all temptation to convert the notes into coin in order to derive the benefit of an *augmentation* would thus be provided against. Such notes would also be used like bills of exchange for remittances, saving the cost and trouble of transporting coin, besides saving time in counting.

Law's first proposition for a bank was submitted at an extraordinary meeting of the council, held October 24, 1715,\* at which, in addition to the members of the council, several bankers, merchants, and representatives of cities in France were present.† The scheme then submitted was thus described in the report of the meeting:—

The idea of this bank is to cause all the revenues of the king to be brought to the bank; to give to the receivers and farmers of the taxes notes for ten crowns, one hundred crowns, and one thousand

\* *Recherches Historiques sur le Système de Law*, par E. Levassneur, Paris, 1854, p. 39.

† The matter had been previously discussed at several meetings held at the residences of those who were interested. "18th [Oct.]. Yesterday there was a

crowns, weight and standard of this day, which will be called bank-notes. These notes will be thereupon carried by the said receivers and farmers to the royal treasury, which will furnish them with receipts on account. All those to whom payments are due from the king will receive at the royal treasury only bank-notes, with which they can go at once to the bank to receive their value, no person being obliged to keep them or to receive them in trade. But the Sieur Lass [Law] pretends that their utility will be such that everybody will be glad to have them in preference to silver, on account of the ease with which payments in paper can be made, and on account of the assurance of receiving payment for them whenever it is desired.

The Duke of Noailles, who was then in charge of the finances of France, was opposed to the bank. He believed that, before a credit sufficient to maintain a bank could be established, it was necessary to create a desire for such an institution. His opposition killed the scheme, as it was then presented. The regent announced that he had been of opinion that the bank ought to be established, but that he agreed with what the Duke of Noailles had said. The proposed bank, which should be founded on the royal funds, and which should be administered in the name and under the authority of the king, was abandoned.

Law then submitted a plan for a bank which should be administered by himself, but which should be subject to the inspection of the government. The capital should be furnished by individuals, or, as he said, he himself would furnish it and would take all the risks. The proposition contemplated the use of deposits for the purpose of discounts, and objection was raised that the bank would not then be in condition to redeem its bills. He replied by pointing to the example of the Bank of Scotland, whose notes circulated freely after the bank demonstrated its solv-

numerous council held at M. Amelot's, to examine the project of the bank. It will meet again to-morrow at M. d'Argenson's. Several bankers and principal merchants of Paris will attend. M. Law has only requested the Duke of Orleans to exclude Bernard." *Memoirs of the Court of France from the Year 1684 to the Year 1720*, now first translated from the Diary of the Marquis de Dangeau, ii., p. 370.

ency, even though it was obliged to suspend specie payments for lack of coin. He evidently hoped that the bills of his bank would be made a legal tender between the government and individuals; for, he said, "to make the bank-bills serve in payments between the king and subjects gives them a much greater extent of credit, and renders them much less subject to extraordinary demands, than if the receipt of the bills in payments were voluntary." He also clung to the idea of making the bank the cashier of the king, and argued that this act would remove distrust of the king's relations towards the bank, and would make it clearly to his advantage to sustain it. It would make the bank stronger, and less subject than other banks to events which might endanger its credit. Bank-notes would, in consequence, become like letters of exchange, payable at sight, in every city in the realm. To the objection raised by the Duke of Noailles, that the confidence essential for the support of the bank could only be born of a desire for the bank, he answered that he could easily prove that the bank would restore confidence by causing money to circulate. In any event, it could not increase the present distrust, nor lock up coin closer than it was then held. All the edicts the king might issue would not restore confidence among foreigners. The bank alone could do it, by furnishing a means for drawing letters of exchange payable in *écus de banque*, which would not suffer any change, even if the denominational value of the coin in circulation should be altered.

On the 2d of May, 1716, letters patent\* were granted to Sieur Law and his company, to establish the Banque Générale. The exclusive privilege of the bank was granted for the term of twenty years. Notes were to be stipulated payable in specie, under the term *écus de banque*, by which was to be understood coin of the weight

\* *Recueil Général des Anciennes Loix Françaises*, Paris, 1830, t. xxi., No. 57, p. 100 et seq. Duhautchamp, *Histoire du Système des Finances sous la Minorité de Louis XV.*, à La Haye, 1739, t. v., p. 74, No. 4.



and standard of the date. The bank was exempt from taxation; and shares and deposits belonging to foreigners were not subject to *droits d'aubaine*, confiscation, nor letters of reprisal, in case of war. Depositors were to receive notes payable at sight in return for their coin. The penalty for altering or counterfeiting these notes was death. The Duke of Orleans was named as the protector of the bank.

On the 20th of May, an edict was promulgated, prescribing the details of the organization.\* The capital was to consist of 6,000,000 livres, in twelve hundred shares of 5,000 livres each. Open accounts could be kept in the bank, the cash balance being subject to withdrawal, or to *virements de parties*,† — a method of adjusting balances between depositors by transfers of accounts, similar in effect to that which is to-day effected by checks. Bills or letters of exchange could be discounted; but the bank could not engage in trade by sea or land, nor in maritime insurance, nor in commission business. All bank-notes were to be made payable at sight, and the bank was forbidden to borrow upon interest. The bank could issue notes, and the only limit prescribed was that there should be prepared at one time the amount which it was judged would be necessary. Forbonnais‡ asserts that the managers of the General Bank determined that the capital should be paid three-quarters in *billets d'état* and one-quarter in coin.§ Daire calls attention to the fact that

\* *Recueil Général*, t. xxi., No. 61, p. 106 *et seq.* Duhautechamp, t. v., p. 81, Letters Patent, containing Regulations, etc.

† “*Compte en Banque* is applied to a fund that merchants, bankers, or other individuals deposit in the common treasury of the bank.” Under “*Banque*,” the phrase “*Écrire une partie en banque* is defined, To enregister in the books of the bank the mutual transfer of sums, or portions of sums, in bank, which are made by creditors to debtors. It is called ‘*Virement des Parties*.’” *Le Grand Vocabulaire François*, Paris, 1767, and following years.

‡ *Recherches et Considérations*, t. ii., p. 427.

§ Lacretelle erroneously says that the funds of the General Bank were composed one-half of *billets d'état*. *Histoire de France pendant le Dix-huitième Siècle*, Paris, 1830, t. i., p. 267.

Thiers omits all notice of this fact.\* Notwithstanding the reduction of the amount of the government debts effected by the *Visa* and the Chamber of Justice, the *billets d'état* were still at a heavy discount on the market. There were no definite quotations, for traffic in government securities was attended with danger from arbitrary proceedings like the *Visa*. Sales were effected, however, in an underhand way by agents whose head-quarters were in the Rue Quincampoix, and the rates obtainable were governed somewhat by the necessities of the seller. At that time, such securities are said to have been at a discount of from sixty to seventy per cent. If one-quarter of the capital was paid in cash and three-quarters in *billets d'état* at the lowest market rate, the effective capital of the bank would have been 2,850,000 livres. Ganilh,† taking *billets d'état* at forty, figures the effective capital at 3,300,000 livres.‡

The bank was authorized to exercise its functions as soon as the twelve hundred shares were subscribed. A meeting of the subscribers was then to be called, at which regulations were to be fixed for payment for the shares. The place designated in the royal declaration for the office of the bank, until a more suitable place could be

\* *Économistes Financiers du XVIIIe Siècle*, par Eugène Daire, Paris, 1851, p. 426, note 1. "The power to pay the price of the share, one-quarter in silver and three-quarters in *billets d'état*, is an important circumstance, of which M. Thiers does not speak. It proves that the interests of the bank from its origin were connected with those of the government." Page 428, note 1, Daire shows that Thiers confused the General Bank with the Company of the West, so far as paying for shares in this manner was concerned.

† *Essai Politique sur le Revenu Public*, par M. Ch. Ganilh, Paris, 1806, t. ii., p. 4.

‡ The statement that one-quarter was paid in cash has been taken by some writers to mean that one-quarter of the cash was paid in. Lémontey quotes, from a manuscript on John Law by Ledran, the statement that 375,000 livres were paid in coin and 1,125,000 livres were paid in *billets d'état*, which were at a discount of seventy per cent. *Histoire de la Régence*, par P.-E. Lémontey, Paris, 1832, p. 71, note. Courcelle-Seneuil, in Lalor's *Cyclopædia*, says that, of

found, was Law's house, Place Louis-le-Grand (Vendôme),\* then a new quarter of Paris.

Nothing in the letters patent of the bank indicated its close connection with the government, unless the fact that the Duke of Orleans was styled its protector be so regarded. On the surface, the policy of the Duke of Noailles prevailed; and Law was left to establish confidence in his bank-bills without the direct aid of the government. The bank was not at that date declared to be the royal cashier, nor were the bills ordered to be received between the government and the people. But, from the statement that the regent presided at a meeting of the shareholders, December 20, 1717, † at which a semi-annual dividend of seven and one-half per cent. was declared, we learn that the protectorate of the regent was more than a name. The mention, also, of the presence at this meeting of a majority of the great lords of France shows

the 1,500,000 payable in specie, less than 400,000 livres had been paid up. Jobez says, "The bank was opened with the sum of 375,000 livres; for on 1,200 shares of 5,000 livres, divided among the shareholders, and payable one-quarter in coin and three-quarters in *billets d'état*, the payment of only one-quarter of what was due had been exacted." *La France sous Louis XV.*, par Alphonse Jobez, Paris, 1864, t. i., p. 465. There is, however, nothing in the edicts issued at the time of the organization of the General Bank which relates to the manner in which the capital stock should be paid in. *Recueil Général*, t. xxi., pp. 100, 106, Nos. 57, 61. And see Duhautechamp, t. v., pp. 74, 81. In the declaration of the king, converting the General Bank into the Royal Bank, it is stated that the capital of the General Bank was originally paid in *billets d'état*, which were afterwards converted into shares in the Company of the West. *Recueil Général*, t. xxi., p. 167, No. 173. Duhautechamp, t. v., No. 14, p. 157. Forbonnais's statement concerning the method in which the capital should be paid in was apparently taken from the records of the bank, and Ganilh's statement of the effective capital of the bank was therefore approximately correct.

\*As a matter of fact, it is stated by Piganiol de la Force that "Law first established the offices of the *Banque Générale*, which ruined so many families," in the Hôtel de Mesmes, which is in the Rue Sainte-Avoye. *Description de Paris*, etc., par M. Piganiol de la Force, Paris, 1742, t. iv., p. 204. Levasseur, p. 129, note 2, says it was determined, in April, 1719, to remove the offices of the bank from the Hôtel de Mesmes, Rue Sainte-Avoye, to the Hôtel de Nevers, Rue de Richelieu, the building which is now occupied by the Bibliothèque Nationale.

† Lémontey, t. i., p. 72.

that Law had scattered his stock where it would do him good.\* It is evident that the Court was, from the first, directly interested in the success of the bank. According to Forbonnais, the success was a pronounced fact from the very beginning; and the beneficial influence of the bank upon trade and manufactures was immediately felt.

It is clear, however, that the General Bank, even after it had demonstrated its value, was far from satisfactory to Law. Although he had alleged that credits or notes, being more suitable than coin, would always be preferred, if the establishment and the management were well regulated, and although he had proved that the French would avail themselves of such credits, still he longed for the more extended area for operations and the greater protection against extraordinary demands, which, he said, would result from making use of the bills in payments between king and subject. He had argued that the power on the part of individuals to refuse the bills of the Bank of Scotland had made the circulation of the bills of that bank more uncertain than if they had been, as he termed it, legal. In the same memorial in which he offered to assume the risk of the experiment himself, he had insisted

\* If proof be needed upon this point, it is furnished by the infamous Abbé Dubois, who records the fact that he was bribed, and also indicates that Stair, the English ambassador, was working in Law's interest. "Law wished for only one foot in the stirrup; and, in fact, his beginnings were so reasonable that I was seduced at the very first. Stair, who was always at the Palais Royal, raised by degrees the enthusiasm of the regent for the formation of a bank, to be treasurer of the State, with Law as director. Nevertheless, the Duke of Orleans, all on fire at first, cooled off considerably, when it came to the question of issuing an edict. Then Law played adroit manœuvres, spending money and promises. My own credit with the prince was too well known for him not to engage it at any price. Stair sent for me particularly; and Law, whom he presented to me as a genius, fought me on his own ground, proving to me the advantages of the bank,—advantages which were very clear to me, since, in addition to a sum payable after the establishment of the system, they gave me thirty of the first 12,000 shares. I entered warmly into their plans, and did not leave the regent at rest until he had consented to everything." *Mémoires du Cardinal Dubois*, Paris, 1829, t. iii., p. 238.

that the idea of making the bank the cashier of the king would make it stronger, would extend its credit, and would make its bills, like letters of exchange, payable at sight in each city in the kingdom. He maintained that an absolute monarch could extend his credit more advantageously, and could obtain money at lower rates of interest, than a prince with limited authority. The error committed by France which had produced distrust had been, according to him, in making the notes which the State issued interest-bearing. They should have been payable at sight, without interest. They were investments, and not credits. His belief in the power of an absolute monarch to force the circulation of State notes is shown in one of his letters to the regent. He there states that force is contrary to the principles on which credit ought to be founded, and that all that was necessary to introduce his project into commerce was that his notes should be used in place of specie in dealings between the king and his subjects; but he prefaced these assertions with the remark that his Majesty ought not to hesitate in compelling people to use these notes, if it became necessary to do so.\* He was willing to use force in an emergency, notwithstanding the fact that it was opposed to the principles of credit.

In May, 1716, an edict was issued,† which recited that various orders had been made against the circulation

\*The opinions attributed to Law in the text are taken from the compilation of his works, published in Daire's *Économistes Financiers*. It would be impossible, in the limited space afforded me, to furnish references to all citations. To aid the student who may wish to follow the subject further, I point out a few of the references in this paragraph. That the credit of the bank would be extended by making it the royal treasurer, see page 550; that an absolute monarch has an advantage over one with limited authority, see p. 546; that credit, to be like money, ought not to bear interest, see p. 547; that force is contrary to the principles on which credit ought to be founded, and for the contradictory remark which prefates it, see Letter VIII., p. 590. See also Daire's note to the same: "*On n'avait jamais eu se contredire à deux lignes de distance.*"

† *Recueil Général*, t. xxi., p. 114, No. 69.

of notes with the name of the payee left blank, that a custom prevailed of avoiding these laws by making such notes payable to bearer, and that blank indorsements worked the same effect. All these methods were forbidden to individuals, but State notes and notes of the bank might circulate in any of these forms. On the 25th of July, 1716,\* a declaration of the king was issued, the object of which was to facilitate the transmission of notes to the provinces, by removing all risk of loss during transportation. Indorsements of bank-notes were permitted to be made, the only effect of which would be to indicate the ownership of the notes, unless there was an express guarantee given by the indorser.

The decree of council, April 10, 1717, in which it was ordered that notes of the General Bank should be received for all taxes and revenues of his Majesty, and that officials having charge of the royal treasure should redeem at par bank-notes which should be presented to them for that purpose, has generally been considered as fixing the date of the intervention of government in behalf of the bank.† In the preamble of this decree, it is stated that the notes of the bank had already established their credit throughout the kingdom and in foreign lands; that remittances had consequently become much more easy; that discounts had been reduced and usury diminished; and that it was important that these notes should be received for value throughout the kingdom, so that re-

\* *Recueil Général*, t. xxi., p. 120, No. 86.

† In October, 1716, the Duke of Noailles apparently yielded to the pressure of Law, and on the 7th of that month addressed a letter to the intendants of the provinces, which is quoted by Levasseur, p. 49, in which receivers of taxes were ordered to make their remittances to Paris in bank-notes, and to redeem the notes whenever they had specie in their treasuries. This order proved to have been issued too soon. The bank was not prepared to furnish notes fast enough for so extended a use. Receivers took advantage of the order to withhold their remittances. It was therefore modified by a letter of the 26th of December, in which these officials were instructed to redeem bank-notes, when presented, but not to hold back their funds. The order of October anticipated by six months the date usually assigned for the intervention of the government.

mittances could be promptly made, thus avoiding loss of use of money through lying idle in the treasuries, and also avoiding as far as possible the transportation of coin from the provinces to Paris, which was always a disadvantage to trade.

Notwithstanding the evident advantage to the provinces of being furnished with a means of remittance to Paris which should avoid the expense and risk of transportation of coin, the bankers and officials who were interested in maintaining the old system were powerful enough to raise serious opposition to this order in the greater part of the provinces. The Duke of Noailles was obliged to exert his authority to the utmost, and even in some instances to punish recalcitrant receivers of taxes, before the order could be enforced in its full spirit; and the council was obliged to follow up this decree with supplementary decrees,\* issued September 12, 1717, February 26, 1718, and June 1, 1718, before the opposition was overcome.

In a letter to the regent, Law had said: "The bank is not the only nor the grandest of my ideas. I will produce a work which will surprise Europe by the changes which it will effect in favor of France,—changes more powerful than were produced by the discovery of the Indies or by the introduction of credit." In a note, Senovert † queries whether Law alluded in this to the Company of the Indies. Unless this be accepted as an allusion to that company, I find no hint in Law's preliminary arguments

\* *Recueil Général*, t. xxi., p. 106, note. Duhantehamp, t. v., pp. 117, 120.

† Quoted in Daire's *Économistes Financiers*, p. 581. On the same page, a few lines above, Law says: "Your royal highness will remember that, one day at Marly, you did me the honor to say that through the openings which I have made you began to see beyond the difficulties of the country. I then had the honor to say that the bank was not the most important of my ideas, but that I had a plan by which I would furnish five hundred millions which should cost the people nothing." It is to this clause the note in question is attached. In the edition of *Œuvres de J. Law*, Paris, 1790, generally attributed to Senovert, the note occurs on page 335, while the expression quoted in the text is on page 337. The force of the reiteration is much emphasized when thus encountered on separate pages.

that his original scheme contemplated the absorption of the great commercial monopolies of France. The time had come, however, for the development of his system. Crozat, to whom Louis XIV. had in 1712 granted the monopoly of the commerce of Louisiana, had petitioned the regent for the privilege of surrendering the concession; and this privilege was granted him by decree of council dated August 23, 1717.\* The statement has been made, but not generally accepted, that this act of Crozat was for the purpose of disarming the Chamber of Justice, and that the suggestion that the grant be put in the hands of Law was not dictated in a spirit of friendship, but in the hopes that it would lead to his destruction.† The grant surrendered by Crozat was promptly conferred upon the Company of the West for a period of twenty-five years, by an edict registered on the 6th of September ‡ of the same year. The company was given the monopoly of the commerce of the colony and the absolute control of colonial affairs, as well as the monopoly of the trade in beaver skins in Canada. All mines opened in Louisiana during the term of the concession were granted to the company. It had the power to sell and convey lands free from the rights of seigniorage. It could arm and equip vessels of war, and the property of colonists in Louisiana was exempt from taxation during the period of the grant. The territory over which the company exercised these sovereign powers comprehended the region from which the Mississippi, the Ohio, and the Missouri

\* This date is given in a preamble. Duhautechamp, t. v., p. 92. See also *Recueil d'Arrests et Autres Pièces pour l'Établissement de la Compagnie d'Occident*, Amsterdam, 1720, p. 12.

† Lémontey, *Histoire de la Régence*, t. i., p. 73. Martin, on this as on many other points, follows Lémontey: "Noailles, whom the influences of Law began to disquiet, hoped to draw him into a ruinous affair, and little suspected that he was offering him the ardently desired lever of his system." *History of France*, by Henri Martin, translated by Mary L. Booth, vol. xv., p. 36.

‡ Duhautechamp, t. v., p. 91. *Recueil d'Arrests*, p. 11 et seq.



draw their waters. The only condition attached to the grant was that the company should import, during the period of the concession, six thousand whites and at least three thousand blacks into Louisiana.

No limit was fixed for the capital stock in the original grant, except that his Majesty was to close the books when the Directors said enough had been subscribed. Shares were fixed at five hundred livres each, and were to be paid for in *billets d'état*. It was declared that the shares should be made payable to bearer, and that they could be acquired by all persons without regard to their rank. The same inducements were offered to foreigners to invest in them as in the case of the General Bank. His Majesty declared that he wished non-resident foreigners to enjoy the same privileges in this respect as subjects of France. The *billets d'état* which should be paid for the shares were to be converted into four per cent. *rentes*, and the *billets* themselves burned.\* Thus, the market would be relieved from nearly one-half the floating debt of the State; and shareholders would be entitled to the same income as if they had held the notes, while they could hope for possible profits from the development of the colony.†

\* Bailly says that Law undertook to pay at par in silver the shares of the Company of the West, created but a short time before, in *billets d'état*, adding thereto a dividend much greater than the profits warranted. Before the time fixed for the redemption, the Company of the Indies was founded. No one demanded the redemption of his shares of the West. On the contrary, in one month, they were carried from par to 130 per cent. *Histoire Financière de la France*, par M. A. Bailly, Paris, 1830, t. ii., p. 80. I do not know on what authority this statement can be based. Perhaps it refers to the redemption of the General Bank shares.

† Thiers erroneously states that shares were to be paid for one-fourth cash and three-fourths *billets d'état*. *Memoirs of the Mississippi Bubble*, etc., by Adolphe Thiers, translated by F. S. Fiske, p. 62. This statement is evidently a misapplication of the terms on which subscriptions were paid for the General Bank, to the Company of the West. Marmontel, whose account of the system contains several errors, and on whom Thiers may perhaps have relied, makes the same mistake. *Œuvres Posthumes de Marmontel, Historiographie de France: Régence du Duc d'Orléans*, Paris, 1805, t. i., p. 178.

On the 12th of September, 1717,\* seven directors were appointed by the regent, to whom power was given to regulate and administer the affairs of the company. Law's name led the list. In December, it was ordered by royal edict† that the capital stock of the Company of the West should be fixed at 100,000,000 livres. 4,000,000 livres of *rentes* were created, which were to be issued to the company as fast as the corresponding amounts of *billets d'état* were paid in. The four millions for the year 1717 ‡ were to constitute the working capital of the company; but the *rentes* for the future were to be paid to the shareholders in semi-annual payments, beginning July 1, 1718. The amount of the capital stock of the Company of the West was unprecedented in France. Yet, at the very beginning, Law made provision for a possible increase. It was decreed that shareholders who did not contribute to such increase should thereafter receive only the four per cent. arising from the *rentes*.§

\* *Recueil d'Arrests*, p. 21.

† *Recueil d'Arrests*, p. 25. Sismondi apparently confounds the bank and the company, and, drawing no distinction between this edict and the letters patent of August, which were registered September 6, says, "The capital of the bank had been fixed at 100,000,000 by the edict of its creation." *Histoire des Français*, par J. C. L. Simonde de Sismondi, Paris, 1842, t. xxvii., p. 398.

‡ Eight months of the year had elapsed; and, at first sight, it would seem that, even if the subscriptions were paid up promptly, there could be but a fraction of the year's *rentes* for working capital. It must be borne in mind, however, that the *billets d'état*, with which the stock was to be purchased, also bore four per cent. interest. An attempt was made to cover this point in the third article of the December edict. *Recueil d'Arrests*, p. 29.

§ Apparently, the shares had coupons attached, representing this interest; for it was provided that shareholders could dispose of the interest on their shares by separating from the note of the share the part in which mention was made of the interest, which would be paid by the cashier, when due. The interest notes, thus separated, became by this means notes payable to bearer, the same as shares. *Recueil d'Arrests*, § 14, pp. 34 and 35. The shares of the General Farms Company, which was organized Sept. 16, 1718, also had coupons attached. In the decree of Aug. 31, 1719, in which the method of reimbursing the shareholders of that company is prescribed, the "coupons" of the shares are spoken of. Duhautechamp, t. v., p. 235. The dividends for the years 1720, 1721, and 1722 were attached to the "qualified" shares dated January 1, 1720. Duhautechamp, t. vi., p. 66. •

The struggle between the regent and the Parliament of Paris began very shortly after the formation of this company. The story of this struggle is not without interest. But the power of the regent was now so firmly fixed that the contest with the Parliament did not seriously incommode the progress of the system; and the details of the contest are not, therefore, of importance in connection with the history of the bank and of the company. The conservatism of the Duke of Noailles was not in harmony with the frame of mind of the regent; and, when D'Aguesseau was humiliated, Noailles retired from the council, and D'Argenson assumed control of the finances. The nomination of D'Argenson was especially obnoxious to the Parliament. He appears to have been an ambitious, energetic man, willing to aid in the execution of projects, whether he believed in them or not; and his readiness to adapt himself to circumstances has caused his position with regard to Law's schemes to be interpreted in different ways by different writers.\* The first act of importance affecting the finances which took place after D'Argenson assumed office was a recoinage with *augmentation*. This was ordered in May, 1718, but was not even sent to the Parliament for registration. On the 20th of June, that body by decree forbade the execution of the order, on the ground that it was prejudicial to the State, to commerce, and to the fortunes of individuals. On the same day,† a decree was issued by the Council of State, breaking the decree of the Parliament and ordering

\* Louis Blanc says he was the leader of the malcontents who were jealous of Law. *Histoire de la Révolution Française*, t. i., p. c. The Duke of Richelieu says: "Thus, D'Argenson, Law, and Dubois resolved not only to humiliate the Parliament which hindered the system, but they further wished, by the same Bed of Justice, to destroy the Duke and Duchess of Maine." *Mémoires du Maréchal Duc de Richelieu*, seconde édition, Paris, 1793, t. iii., p. 15. Clement, in his *Portraits Historiques*, says he "would not submit to be but a dummy for Law" (p. 252).

† Extracts from the Registers of the Council of State. Duhautechamp, t. v., p. 123, No. 9.

anew the enforcement of the edict concerning the recoinage. On the 12th of August,\* the Parliament again showed its hand, this time directing its attack against the bank, which was ordered to keep within its charter. Royal treasurers were forbidden to deposit their balances in the bank; and foreigners, whether naturalized or not, were directed not to meddle in its affairs.† This was followed by a *coup d'état* on the part of the regent. Troops were ordered out; and the Parliament was summoned to a bed of justice, at which letters patent were issued‡ ordering it to keep within limits, and practically annulling its powers of remonstrance. From this time forward, during the development of the system, the Parliament was passive.

While this contest was going on, shares in the company had not found favor with the public. The solicitude concerning subscriptions is shown by the various decrees on the subject issued from time to time during the summer. It was announced June 12, 1718,§ that a part only of the subscribers had paid up, and that the directors had, in May, stricken off the names of delinquents. It was decreed that all who wished to subscribe might do so by paying one-fifth in *billets d'état* and the remaining four-fifths by the 1st of November. A failure to pay up in full by that time would forfeit the first payment. Courts and judges were deprived of the power of hearing disputes arising under this decree, such causes of action being referred to his Majesty's special consideration. This decree was followed by another, issued on the 28th || of the same month, authorizing the company to issue certificates

\* Duhautechamp, t. v., p. 124, No. 10.

† Law's life was in danger during this struggle. It has even been said that the Parliament prepared to execute him. *Mémoires Complètes et Authentiques du Duc de Saint-Simon*, t. xvi., Paris, 1829, p. 434.

‡ Duhautechamp, t. v., p. 127.

§ *Recueil d'Arrests*, p. 36.

|| *Recueil Général*, t. xxi., p. 106, note. *Recueil d'Arrests*, p. 38.

to bearer for such as had paid one-fifth, such certificates to contain a clause showing that they were forfeitable if the other four-fifths were not paid according to the terms of the previous decrees.

On the 4th of December, 1718,\* the Banque Générale, was, by a declaration of the king, converted into the Banque Royale,† to be administered after January 1, 1719, in the name and under authority of the king. In this declaration, the regent stated that the success of the General Bank had caused him to examine anew Law's original project; and, having been informed that it would be for the benefit of the great body of his subjects that the bank should be continued under the title of the Royal Bank, he had accomplished this by reimbursing the shareholders in coin for the *billets d'état* they had paid in,‡ which *billets d'état* had subsequently been converted into shares in the Company of the West. He had, in consequence, become the sole proprietor of the bank. The shares in the Company of the West were to remain in the treasury as a fund for the bank, and to serve as a guarantee for the public. Notes of the bank were to be issued in future only by authority of decrees of the council, and were to be payable in *écus de banque* or in *livres tournois*, according to the instructions contained in the decrees. A

\* *Recueil Général*, t. xxi., p. 167, No. 173.

† Ganilh calls attention to the curious confusion as to what constitutes a basis for credit, which was exhibited when the bank was thus converted into a government institution: "This metamorphosis had no troublesome effects on the credit of the bank; and what seemed truly absurd was that the government, which could not borrow a million on an edict enregistered in Parliament, borrowed fifty millions through the issue of bank-notes three months after it took possession of the bank. And these new notes, although without pledge and without security, although exactly similar to all the depreciated State notes, preserved their value, and were received with the same confidence as those which had been issued while the bank was under Law's direction." *Essai Politique*, t. ii., p. 11.

‡ The fact that the regent redeemed the shares of the General Bank by paying for them in coin has been discredited by some writers, but the assertion is made positively in the declaration by the king.

choice between the two forms of notes was thus nominally afforded the public. The new phrase in the notes, *livres tournois*, meant merely the variable fraction of the louis called the livre, which was subject to constant changes in value. Accounts in bank were to be exempt from execution. January 5, 1719,\* Law was appointed director of the Royal Bank.

Nothing is said in the declaration of the outstanding circulation of the General Bank; nor, so far as I have been able to discover, is it disclosed in any government document. Authors have set the estimate as high as 60,000,000 livres and as low as 12,000,000 livres; and, curiously enough, the authority for these different amounts appears to have been derived from one source,—the decree of April 22, 1719.†

The system was now launched and floating on the tide of fortune. The Royal Bank would seem to have been the complete realization of Law's original scheme. It

\* Duhautechamp, t. v., p. 176.

† Sir James Steuart, in his *Inquiry into the Principles of Political Economy*, vol. ii., p. 244, says 59,000,000. The Baron Nervo says 60,000,000. John Philip Wood, in his *Memoirs of the Life of John Law*, says that Law endeavored to obtain permission to continue the General Bank at the same time that the Royal Bank should be set on foot; but the request was refused. He gives 59,000,000 as the amount of outstanding notes, and refers to the decree of council as his authority. Levasseur (p. 52, note 3) gives the decree of April 22, 1719, citing it from Forbonnais, as the authority for his statement that 51,000,000 had been issued before December, 1718. On page 196, the 51 is converted into 61; and, in his record of the issues of the Royal Bank (p. 197), the 51,000,000 authorized in this decree are entirely omitted. Daire, citing the same decree as his authority, says, "Whilst the General Bank, a private establishment, had, during its thirty-two months' existence, issued, at most, 12,000,000 of notes, it needed only five months for the Royal Bank to put forth the amount of 59,000,000." *Économistes Financiers*, p. 433. I think I can trace the manner in which these different results have been derived from the same document. The decree of April 22 is an important one, and abstracts of it are given by all the authorities. An investigator, working from an abstract, might easily be misled. The decree authorized the issue of 51,000,000 notes, which, it was said, would bring the issue up to 110,000,000. Law had argued that credit increased capital tenfold. His capital was 6,000,000. 59,000,000 were outstanding. This was almost exactly the sum which Law had propounded as the increase which his capital would receive from credit. Inter-

was, as the regent intimated, Law's first plan; although here again we are met with doubts, and with assertions that Law was opposed to this change.\* To the bank had been added the Company of the West, with whatever additional strength was to be gained therefrom; and Law could at last test the principles which he had announced. Money furnished the life-blood of a nation. Paper was even better than coin. The supply that could now be furnished need only be limited by the demand. In addition to the ordinary channels of business, he had at his command the development of Louisiana, from which to gain that activity of circulation which was his measure of prosperity.

Notwithstanding the evident favor shown by the regent to Law, there was as yet no movement in shares of the

preting Law's language literally, it was an easy inference that the outstanding circulation was that of Law's bank. Levasseur has evidently inverted the figures of the notes issued and notes outstanding. He worked, in this instance, from Forbonnais, instead of from the decree which is given in Duhautechamp, t. v., No. 18. In the *motif* of the decree, the dates of the several issues which make up the 59,000,000 are given. They were January 5, February 11, and April 1. The decree of January 5—Duhautechamp, t. v., No. 16—authorized an issue of 30,000,000, of which 12,000,000 were in the form of 20,000 notes for 100 *écus de banque* each. These crown notes, according to the decree of April 22, were never issued; and the order to issue them was then revoked. Here we find the 12,000,000 which Daire says was Law's outstanding circulation. Paying no attention to the statement in the decree that they had never been issued, Daire adds them to the 59,000,000, and puts the outstanding circulation at 71,000,000. My own conclusion is that Daire was right in fixing upon the 12,000,000 as the circulation of the General Bank. I infer that this amount, issued payable in *écus de banque*, must have been for the purpose of redeeming the outstanding circulation which was of like character; but, when it was found that the public acquiesced in a redemption in the *livres tournois* notes, they were withheld, and subsequently cancelled.

\* "Law eluded a proof which he had solicited, and proposed simply to replace 900,000,000 capital of *rentes* by the creation of an equal amount of notes having the function of money, without interest and without redemption." If the bank was to prevail, he wished it put under "protection of a particular government, composed of four superior tribunals,—Parliament, the Chamber of Accounts, the Court of Aides, and the Court of Monies." Lémontey, t. i., p. 298. Martin, who, as I have elsewhere stated, follows Lémontey closely, repeats this statement. The treasures of the French archives were at Lémontey's command. Since his day, it is probable that some of the documents from which he quoted have been scattered or destroyed.

Company of the West. If other explanation for this be needed than the lack of success of previous monopolies of this character, it may perhaps be found in the fact that the Paris Brothers, prominent Swiss bankers, living in Paris, had in September, 1718,\* through D'Argenson, secured the contract for the collection of the revenue known as the *Fermes Générales* for the sum of 48,500,000 livres per annum. Following in Law's footsteps, they had secured a decree from the Council of State organizing a company based upon the contract, with a capital equal to that of the Company of the West, the shares being 1,000 livres each. The shareholders were to participate in the profits or losses, and the books were thrown open for public subscription. Like the Company of the West, the shares were to be paid for in discredited government obligations. These would bear four per cent. interest. The possible profits from the contract not only seemed much better assured than those from the commerce of Louisiana, but there was no reservation of the first year's interest to develop the scheme. The shares of the anti-system, as it was called, are said by most writers to have been better received than those of the system.† Many of the subscribers to stock in the Company of the West were at this time delinquent. The circumstances were not such as to tempt Law to enforce the forfeiture of the first payment; and it was announced in a decree, September 22, ‡ that the time for

\* Duhautchamp, t. v., No. 13, p. 147.

† In November, 1718, according to Fantin des Odoards, the two were quotable at the same rate. *Histoire de France*, par Antoine-Étienne-Nicolas des Odoards Fantin, Vicaire Général d'Embrun, Paris, 1789, vol. i., p. 205. This author, who is generally spoken of as Fantin des Odoards, was an industrious gleaner of facts; and he gives details concerning events and quotations of market rates, not to be found elsewhere. Notwithstanding the fact that his confusion of statement and evident lack of understanding of technical terms have given him a reputation for being unreliable, I feel that, within certain limits, he may be used as authority.

‡ *Recueil d'Arrests*, p. 68.



paying the four-fifths, due November 1 in *billets d'état*, of which 22,000,000 remained unpaid, had been extended to January 1, 1719. It was evident that public attention must be attracted by other means.

In the fall of 1718 began the series of announcements of privileges granted to this favored company, which, judiciously scattered over a series of months, gradually stimulated public interest in its affairs, until all of France was plunged in a delirium of excitement; and the highways leading to Paris were thronged with people from the provinces and from foreign countries, hastening to the capital in the hopes that they might still be in time to secure shares. On the 1st of August, 1718,\* the contract for collecting the revenue from tobacco was awarded to the company for six years, at the rate of 4,020,000 livres per annum, an increase of 2,020,000 livres over the previous compensation. On the 4th of September,† the period of the grant was extended to nine years. December 15,‡ the privilege and the supplies belonging to the Company of Senegal were purchased. December 27, 1718,§ branches of the bank were established at Lyons, Rochelle, Tours, Orleans, and Amiens.|| Each of these branches had two offices,—one for the redemption of notes in coin, and the other for the delivery of notes for coin. It was also ordered that, after a given time, token money should not be received in payments of above six livres, and that silver should not be used for payments which exceeded six hundred livres, in cities where the bank had an office. No protest was to avail against payments in notes in cities

\* *Recueil d'Arrests*, p. 60.

† *Ibid.*, p. 65.

‡ Duhauchamp, t. vi., p. 144, Art. V. of the decree of the month of July, 1720.

§ *Recueil Général*, t. xxi., p. 107, note. See also Forbonnais.

|| The author of *Vie Privée de Louis XV.*, à Londres, 1781 (said to be Mouffle d'Angerville), calls attention (t. i., p. 59) to the fact that, in the cities where there were parliaments, bank offices were not established. Lille, Marseilles, Nantes, Saint-Malo, and Bayonne were thus distinguished.

where the bank had an office, as the notes were always redeemed at sight. February 11, it was ordered that notes could be redeemed in gold as well as silver, redemptions and payments to be at current rates.\* January 5, February 11, April 1, and April 22,† decrees were promulgated authorizing the issue of notes. A portion of those issued January 5 were authorized to be stipulated in *écus de banque*. In the preamble to the decree of April 22, it was stated that the public preferred those payable in *livres tournois*. The notes payable in *écus de banque*, which had been authorized, but not printed, were not to be prepared; 59,000,000 payable in *livres tournois* had been issued; 51,000,000 more were authorized; 100,000,000 livres, it was thought, would be enough for purposes of trade; and 10,000,000 more were to replace indorsed notes. The phrase "weight and standard of this day" had disappeared from the notes with the change to *livres tournois*; but it was ordered in the decree of April 22 that bank-notes should not share in the *diminutions* to which silver was subject, and that they should always be paid in full. Some doubt exists as to the responsibility for the change in the tenor of the notes and the insertion in the decree of the clause concerning *diminutions*. Louis Blanc, an ardent admirer of Law, says that Law was responsible, and explains his apparent inconsistency by saying that he feared the regent, and was opposed to giving the notes of the Royal Bank any features which could make them preferable to coin. He adds that the regent restored the omission by inserting in the decree the clause making the

\* Jobez, *La France sous Louis XV.*, t. ii., p. 100, refers to the decree of February 11, saying, "It removed from coin a part of its value, by warning the public that the bank would take gold and silver only at market rates." An abstract of this decree is given, *Recueil Général*, t. xxi., p. 107, note. Forbounais says the decree of February 11 ordained that the bank should receive and pay out specie—gold as well as silver—only at the value and following current rates at which it was received in trade.

† *Encyclopédie Méthodique*, title "Commerce," sub-title "Banking."

notes incapable of *diminution*. Dutot,\* a defender of Law, says that the clause in the decree which declared the notes fixed and invariable was opposed to the sentiments of Law. Forbonnais, who was free from prejudice, says that Law and his friends protested afterwards that this clause was inserted against his advice; but Forbonnais proceeds to argue that Law, then in the height of his power, must be held responsible for it, even though it be in direct opposition to the terms of the decree of February 11, already referred to. At any rate, Forbonnais thinks it cannot be charged to Law's enemies, to whom he had not disclosed the secrets of the system. Daire, an opponent of Law, looks upon it as an adroit method of forcing coin to the bank for conversion into notes, through the instrumentality of impending *diminutions*. Levasseur takes the same view of it, and concludes that Law was then too powerful to escape responsibility.†

As a further protection for bank-notes, government officials in cities where the bank had offices were ordered to receive and redeem the notes, and to keep their bal-

\* *Réflexions Politiques sur les Finances et le Commerce*, reprinted in Daire's *Économistes Financiers*. Pâris-Duverney opposed the doctrines of Dutot in a work entitled *Examen des Réflexions Politiques*, etc., à La Haye, 1740.

† The idea of applying the preposterous system of *augmentations* and *diminutions* to notes seems absurd and impracticable. Yet Dutot says, "It is in the power of a legislator to increase or diminish the quantity *as well as the denominational value* of notes." Bearing this doctrine in mind, the change of the notes from stipulations in *écus de banque*—weight and standard of this day—to *livres tournois* carried with it liability to *augmentations* and *diminutions*,—a danger to which, Law had previously argued, notes would not be subject. This change had been brought about adroitly, by pretending to offer the public a choice between the two forms of notes in the first issue, but actually putting forth only the *livres tournois* notes. The decree of February 11 is in harmony with this policy. The exemption of the notes from *diminutions* by the decree of April 22, is a direct reversal of it. Afterwards, Law availed himself of this exemption to draw coin to the bank, by notifications of impending *diminutions*. For that reason, it has been argued that he favored the exemption. No interpretation of these events is consistent with any financial theory. It seems probable that the quiet abandonment of notes payable in coin of "weight and standard of this day" was due to Law. He had availed himself of such notes to buoy the General Bank. He had argued

ances exclusively in this form, and were also forbidden to remit coin to Paris except for the benefit of the bank.

The power of the Scotch adventurer was now an accomplished fact. His skilful manipulation of the courtiers, his adroit management of the regent, and his wonderful mental resources had enabled him to adapt his schemes to the temporary requirements of the situation. He had conquered success out of a series of difficulties and obstructions which could only have been overcome by a man endowed with a sanguine temperament and gifted with extraordinary powers of persuasion. Having subdued the Court and secured a foothold in the commercial world, he next turned his attention to the task of interesting the people in his scheme.

in advance that notes would be more stable than coin, in order to convince doubters. But, when popular confidence in bank-notes had once been established, he could afford to abandon that form of note. The decree of April 22 denotes the interposition of another hand. The fact that Law afterwards availed himself of a feature of the notes apparently inserted against his will merely shows his power to make use of circumstances.

## II.

In the spring of 1719, shares in the Company of the West, although higher than *billets d'état* in the market, were still at a discount in current money. It was at this time that Law introduced into the French market dealings in futures, or, as such transactions were termed by the speculators, bargains in *primes*. We obtain exact information as to the character of these bargains through the language used in a subsequent decree,\* in which they were defined as follows: "Agreements to furnish or receive at a given date shares, subscriptions, or *polices*† of the said company." Law's first transaction of this sort was patterned after similar dealings, with which the brokers in London had for many years been familiar.‡ It was, however, made in so absurd a manner that its evident purpose was to attract attention. He purchased the right to call for two hundred shares of the stock at par six months after date. Instead of paying a moderate sum for the privilege, he is said to have paid 40,000 livres down, which was to be forfeited, if he did not take

\* Decree of February 11, 1720. Duhauchamp, t. vi., p. 21.

† *Polices* were issued, as the quotation in the text shows, by the company, and were nearly the equivalent of *primes*.

‡ In 1692, John Houghton, F.R.S., began the publication of a series of miscellaneous papers. A reprint from these papers, in three volumes, entitled *Husbandry and Trade Improved*, was edited by Professor Richard Bradley of Cambridge University in 1727. In No. 100, issued June 29, 1694, Houghton gives the form of a contract for a "refuse" of shares: this was practically a "call." No. 101, July 6, 1694, has for its substance "the manner of putting stock." "They give many guineas to some to have liberty to put upon them; that is, to make them take, and pay the money agreed for so many shares, at such a price, in such a time." Under the phrase, "the great mystery of buying more than all," explained in No. 102, July 13, 1694, we recognize the modern "corner."

the stock at the given time. Law's confidence that he could by such means stimulate a speculative movement in the stock of his company at once met with a response. Before his contracts matured, the stock had reached a price of ten times its par value.

It is not to be supposed that Law rested his faith solely upon the effect of the "calls" which he had purchased. He had already secured for his company the management of the colony of Louisiana, the monopoly of its trade and of the beaver trade in Canada, the tobacco farm, and the privileges of the Company of Senegal. It had at that time been determined to annul the grants of the Company of the East Indies and the China Company, and to confer the privileges and monopolies which they had enjoyed upon the Company of the West.\* In May, 1719,† an edict was issued announcing the union of these companies, by means of which, as was stated in the preamble, a commerce which extended to the four quarters of the globe was united under a single control. To place the Company of the West in a position to satisfy the creditors of the two old companies, as well as to furnish funds for commercial transactions, it was authorized to issue, at ten per cent. premium, fifty thousand shares, of the par value of 500 livres. The premium was payable in cash at the time of subscription, and the principal of each share was

\* The upward movement of the market was assisted by stories of the discovery of mineral wealth in Louisiana, which were from time to time spread upon the market. Lacretelle (t. i., p. 272) says: "They paid for the lies of impudent travellers who affirmed the existence of mines discovered on the Upper Mississippi. They did more: they brought to the mint ingots which, they said, were brought from the mines, and declared that they assayed more than the mines of Peru." Such stories had especial weight at this time, but the eagerness of the French to discover minerals in the valley of the Mississippi was not limited to the time when the company was in power. They neglected agriculture, and eagerly sought for mines during the entire period of their occupation. The credulity of the French public was, however, especially open to deception at this time. Levassenn (p. 151) collates a number of anecdotes showing this.

† Duhantchamp, t. v., p. 191.

to be paid in twenty equal monthly payments, all payments being required in current coin. The name of the company was changed to "The Company of the Indies." This edict was delivered to the Parliament May 23, 1719;\* but its execution was deferred until the 17th of June, in consequence of the failure of the Parliament to register it. At that date, the edict was put in force by decree of council, notwithstanding all opposition. Three days later,† a new decree was issued, from which it appears that, when the price of shares was fixed at ten per cent premium, they were not worth par in the market; but, even before the edict was published, old shares had risen to one hundred and thirty, and the desire for new shares was so great that subscriptions were offered for more than 50,000,000 livres. It was therefore required that every subscriber should be the owner of four of the old shares, in order to subscribe for one of the new. This limitation of the right to subscribe suggested to the speculators the names by which they distinguished the two issues. The old shares were termed *mères*, the new were called *filles*.

By this ingenious device, the furor for shares, which by the middle of June, 1719, was fairly under way, was stimulated, although the rise which had already taken place and the pressure for the new shares showed that a check was needed rather than a spur. Even upon Levasseur's interpretation of the edict, that the first monthly payment as well as the premium had to be paid before any certificate or evidence of title was issued, only 75 livres had to be paid down for a right in a stock, which was rising so rapidly in the market that there was no risk whatever that the penalty of forfeiture would be enforced against the initial payment; for, if the subscriber should find himself unable to meet the monthly instalments, he could at any rate sell his right for an

\* Duhautechamp, t. v., p. 204.

† *Ibid.*, t. v., p. 207.

advance. In an edict issued July 27,\* the time for making the first payment on these subscriptions was extended to September 1, from which it would seem that rights had been secured by merely paying the ten per cent. premium. Evidently, such rights were in the hands of persons whom it was desirable to protect.

It had been announced April 22, 1719,† that 110,000,000 livres in bank-notes were enough for trade; but, on the 10th ‡ of June, 50,000,000 livres were added, apparently in preparation for an impending increase of demand. The rapid transactions which now daily took place in stocks and contracts for future deliveries gave bank-notes that preference over coin which Law had predicted. While coin was thus being attracted to the bank, and dealers were becoming accustomed to the use of notes in the street, Law was not content with merely controlling what coin there was in France. He cast longing eyes at the piastres which circulated in the miserable colony of Louisiana. To extend the circulation of the notes and to bring in the piastres to the bank, 25,000,000 livres in notes were loaned the company on the 16th of July, 1719,§ which were to be used for the purpose of transporting to France the products of the colony and the coin which circulated there. Piastres were to be redeemed at the mint, without charge for coinage.

To complete the monopoly of maritime privileges with which the company had been endowed, the privileges of the Company of Africa to the exclusive rights of trade with the Barbary States were added by a decree issued June 4, 1719.|| The profits of the mint for a term of nine years were also ceded on the 25th of July,\*\* the company

\* Duhautchamp, t. v., p. 222, art. vi.

† *Ibid.*, t. v., p. 182, including 10,000,000 to replace indorsed notes. See art. ii.

‡ *Ibid.*, t. v., p. 202.

§ *Ibid.*, t. v., p. 211.

|| *Encyclopédie Méthodique*, "Commerce," i., p. 564.

\*\* Duhautchamp, t. v., p. 215.



agreeing to pay for the same 50,000,000 livres in fifteen monthly payments; and offices of the bank were ordered to be opened in every city in which there was a mint.\*

It has been positively asserted that about this time an organized attempt was made to cripple the system by the sudden and unexpected presentation for redemption of bank-notes amounting to several millions of livres, and that the effects were warded off by a *diminution*, made by the decree of 25th of July, 1719,† reducing the *louis d'or* to 34 livres. To escape loss, the conspirators converted their coin, which they had withdrawn, back into notes. In the preamble to the decree ordering the *diminution*, reference is made to one ordered May 7, 1719. Forbonnais discredits the alleged reason for the decree of July, and is disposed to regard the successive *diminutions* as a portion of the system itself (designed to keep coin in the vaults of the bank) rather than a specific attempt to defeat a combination against the system.‡

\* The grant of the profits of the mint was justly regarded as a valuable concession to the company, and at once affected the price of shares. Many market quotations are scattered through the pages of the work entitled *Mémoires de la Régence*, etc., à La Haye, 1723 (attributed to the Chevalier de Piossens). This work may have furnished Fantin des Odoards some of his quotations. The author (t. ii., p. 322) says the decree concerning the mint was published July 29, and shares immediately rose to 350. The 31st, they ranged from 400 to 450. August 1, they were at 450, and the 2d and 3d at 465. *Primes* for October 1 were sold at the same time at the rate of 600 livres.

The market on the 3d of August declined, but rallied again on the 4th, and by the 18th had reached 630. The market, although on the whole buoyant, was evidently sensitive; and we have evidence that speculators for a decline used methods which many have supposed were of more modern invention. Thus, from a pamphlet entitled *A Full and Impartial Account of the Company of Mississippi*, published in London, 1720, we learn (p. 7) that about this time shares fell "only upon the news of Mr. Law's being taken with a slight indisposition."

† Dubautchamp, t. v., p. 219. Any person desirous of following the changes of the coin during the years 1719 and 1720 will find them given in a table in Levasseur, Appendix II., p. 398.

‡ By a decree of council, dated July 8, 1719, we learn that there were outstanding at that time a few of the crown notes. I have, in a previous note, called attention to the fact that the statement was made in one of the

On the 25th of July,\* the same day that the *diminution* was ordered, 240,000,000 livres in new notes were issued, bringing the total issue of bank-notes up to 400,000,000 livres. Two days later, a third issue of shares was authorized.† To the two hundred and fifty thousand shares, comprising the original capital and the issue made when the Companies of the East Indies and China were absorbed, fifty thousand additional shares were now to be issued, to pay for the privilege of the coinage. The par value of these new shares was, like the others, 500 livres; but the subscription price was raised to 1,000 livres, to be paid in twenty equal monthly payments, and the subscriber for a new share was required to own five shares of stock of previous issue. It was also announced that dividends would be paid upon the stock at the rate of twelve per cent. per annum. This announcement has provoked much discussion. It has been contended by the opponents of Law that a company which had for working capital only the 4,000,000 livres from the *rentes* for the year 1717 and the 27,500,000 livres arising from the sale of the *filles*, the payment of the greater part of which was still in the future, was in no condition to promise dividends, which, when the whole of the stock should be paid in full, would amount to 18,000,000 livres per annum. The 4,000,000 livres per annum from the *rentes* was a fixed income; but the estimated profits from the tobacco farm, from the coinage, and especially from the commercial companies, made up a set of doubtful items, which could be marshalled so as to prove either side of the case. It is probable, however, that the announcement of the twelve per cent. dividend, although made for the pur-

decrees that none of them had been issued by the Royal Bank. The decree of July 8 states that the greater part of the crown notes had already been converted into *livres tournois*. It was therefore ordered that outstanding notes of this description should be presented for redemption within three months. Duhautechamp, t. v., p. 210.

\* Duhautechamp, t. vi., p. 200, Statement.

† *Ibid.*, t. v., p. 222.

pose of stimulating trade in shares, was founded upon a belief that the promise could be redeemed from the legitimate profits of the company. Levasseur figures the probable income of the company at that time at 16,500,000 livres, putting the commercial profits at 3,500,000 livres; but Dutot puts this item in 1720 at 10,000,000 livres, so that here we have a difference which shows how Law might have justified his faith in twelve per cent. earnings.\*

The successive acquisition of the several monopolies, the promise of this dividend at a time when the increasing abundance of money was steadily depressing interest, and the steady and persistent attempts to draw people of small means into the vortex of speculation by distributing payments over a long period, and by giving certificates for partial payments which could be sold in the market, all worked in the same direction; and speculation daily increased. At this time there were two sets of certificates afloat, representing rights to acquire shares on which only 50 livres had been paid; namely, the "*filles*," on which the ten per cent. premium had been required at the time of subscription, and the "*petites filles*," as the last issue was called, on which the first payment of five per cent. of the subscription price must have been made, in order to acquire a title of ownership. Under these circumstances, an edict was issued August 12,† in which it was ordered that subscriptions should be subdivided into as many shares as the bearer should wish. It was

\* Levasseur gives the following estimate (p. 113, note):—

Tabacs, . . . . .	3,000,000 livres.
Monnaies, . . . . .	6,000,000 "
Rentes de l'état, . . . . .	4,000,000 "
Profits du commerce, . . . . .	3,500,000 "
	<hr/> 16,500,000 livres.

Dutot's estimate of the commercial profits at 10,000,000 livres will be found in a discussion of the forty per cent. dividend of the next year. *Économistes Financiers*, p. 855. For Daire's criticism of the careless estimate made by Thiers, see *Économistes Financiers*, p. 435, note.

† *Recueil Général*, t. xxi., p. 107, note.

further provided that certificates of the new shares should be for one share each. Thus, every opportunity was offered for people of moderate means to join in the speculative movement, which, although not yet at its height, was sufficiently pronounced to attract public attention.

It was noticed, during the autumn of 1719, that *billets d'état* and other government notes, which up to that time had remained at a heavy discount, began to sympathize in the movement of shares, and then suddenly rose to par. The cause was disclosed August 27\* in a decree, which announced that the Company of the Indies had offered to increase the annual compensation paid for the General Farms by 3,500,000 livres, if the farms should be assigned to that company; and that, in consequence of the offer, the contract with the company organized by the Paris Brothers, although it had five years to run, had been arbitrarily set aside in favor of the Company of the Indies. The increase of annual compensation was not the only nor the most conspicuous benefit to the State which this change was to bring about. As a mark of its gratitude to the government, the company offered to lend the king 1,200,000,000 † livres at three per cent. per annum, to be applied in the redemption of the *rentes* and other charges, and of the *billets d'état* and other government notes. To raise this money, the company was authorized to issue either *actions rentières au porteur* ‡ or contracts

\* Duhautechamp, t. v., p. 225. The contracts comprised under the General Farms are given in detail by the decree, and include the *Domaine d'Occident*, of which possession was not to be given until January 1, 1720. But, according to Duhautechamp, t. ii., p. 48, the company was put in possession in November.

† Daire states that the decree of August 27 announced that the company offered to loan 1,500,000,000 livres to the king. The company did ultimately increase the amount offered to 1,500,000,000 livres, but the announcement of the increase of 300,000,000 livres was made in the decree of October 12. In this latter decree, it was also promised that no more shares should be issued; and special mention was made that the power to continue the *diminutions* of specie, at such times as should be deemed appropriate, was reserved.

‡ *Actions simples* were those which participated proportionately in the profits and losses of the company. *Actions rentières* had a fixed guaranteed

for *rentes*, to be payable by the company at three per cent. per annum. In return for this loan, the government was to give the company three per cent. *rentes*, as fast as the money should be paid over. The various privileges of the company were extended for a term of fifty years. August 31,\* a decree was issued specifying more particularly the details of the proposed redemptions, announcing that the government obligations would be redeemed in coin or notes, at the option of the bearer, and declaring that neither the *rentes* issued by the government to the company, the *actions rentières*, nor the *rentes* of the company issued to individuals could be retired for twenty-five years. Other details connected with the adjustment of the *rentes* on the Hôtel de Ville de Paris were provided for in a decree of September 5.†

Thus, by the stroke of a pen, the holders of the greater part of the government indebtedness found their investments destroyed at a period when the decline in interest and the rise in the value of real and personal property seemed to cut them off from all avenues for investment except those which led up to the system itself. The Company of the Indies became practically the sole creditor of the government. The interest charges on the government debt were reduced to a uniform rate of three per cent., the only exception to which, at that time, was the annual charge of 4,000,000 livres, arising from the *rentes* in which the capital of the Company of the West had been funded. These *rentes* the company voluntarily offered to exchange for three per cents., and the acceptance of this offer was announced in a decree on the 19th of September.‡

The funds under control of the company were all

income, but did not participate in dividends. *Actions intéressées* held a middle ground. They had a fixed guaranteed income, and also had certain rights to participation in dividends. See the *Encyclopédie* of Diderot and D'Alembert.

\* Duhautechamp, t. v., p. 233.

† *Ibid.*, t. v., p. 240.

‡ *Ibid.*, t. v., p. 251.

devoted to specific purposes except the monthly payments arising from the subscriptions to the issue of June, called the *filles*. The amount to be paid in on this account before January 1, 1720, the date fixed for the suppression of the *rentes*, was so ridiculously inadequate that it is evident the company expected that the *rentiers* would be compelled to surrender the government *rentes*, and accept the *actions rentières* and *rentes* of the company\*; but these securities do not appear to have figured conspicuously in the redemptions. It became necessary, then, to issue more shares. Three hundred thousand shares, issued in lots of one hundred thousand at a time, were offered to the public September 13, September 28, and October 2.† The activity of speculation, stimulated by the needs of those whose investments had been disturbed by the redemption of these *rentes*, enabled Law to place the subscription price of these shares at 5,000 livres a share.

The new shares were to be paid for in ten monthly payments of 500 livres each, and from this fact were at once called by the speculators the *cing-cents*. On the 12th of October,‡ the company increased its loan to the government to 1,500,000,000 livres, an amount which was nominally furnished by the new subscriptions.§ The subscribed capital now amounted to six hundred thousand shares, and it was promised that no more shares should be issued. The subscriptions for the first lot were made payable in bank-notes or coin; but this was modified Sep-

\* Law, in his "Reply to Two Letters," wrote as follows: "With regard to the *rentiers*, who alone are at present afraid of the system, the company's design was not to ruin them, but rather to enrich them. Its intention was that those who were reimbursed should purchase the shares which were offered on the market for less than their value," etc. *Économistes Financiers*, p. 623.

† Duhantchamp, t. v., pp. 249, 257, 258.

‡ *Ibid.*, t. v., p. 264.

§ Levasseur, pp. 127, 128, gives the details of the amounts of the *rentes* and debts, which make up the sum of 1,500,000,000 livres. Dutot says the company loaned his Majesty 1,600,000,000 livres. The 100,000,000 necessary for the conversion of the company's four per cent. *rentes* were not included in the 1,500,000,000 estimate.

tember 26\* by a decree which required future payments to be made in *billets d'état* and other State notes and in orders on the treasurer of the company.† This was ostensibly done to favor those whose *rentes* and notes had been ordered to be redeemed. The three hundred thousand shares were ordered to be issued in certificates for one share each.

The company, which two years before found it difficult to float 100,000,000 livres of capital in *billets d'état* at thirty, was now besieged with applicants when it offered for subscription shares representing 1,500,000,000 livres. But even now, when the doors of the Hôtel de Nevers were thronged with crowds, and porters could earn fortunes by aiding people to secure their redemptions and subscriptions, Law neglected no opportunity to convince the public of his hold upon the favor of the regent. On the 12th of October, a decree was issued announcing the suppression of the offices of the Receivers-General and the subrogation of the Company of the Indies in their rights.

Payments were now constantly maturing on the *filles*, the *petites-filles*, and the *cinq-cents*. The latter were by far the more exacting, and even the second payment bade fair to tax beyond their capacity those who were operating on margins for a rise. It was therefore decreed on the 20th of October‡ that the nine payments which remained to be made on the stock of this subscription could

\* Duhautechamp, t. v., p. 255.

† Doubts have been expressed as to whether the order requiring payments to be made in *billets d'état*, etc., was carried out. Duhautechamp says that the effect of the decree requiring the use of treasury orders, etc., for payments caused securities of this description to rise ten per cent. Forbonnais says that on the 25th of September the company agreed to receive bank-notes, with ten per cent. extra. From this, it would seem as if the order to which Forbonnais alludes, although nominally dated September 25, must really have been issued to modify the results of the decree of the 26th. The statement as to the use of *billets d'état*, etc., in payment of subscriptions, is repeated in the decree admitting pensions to the same privilege, issued October 21. Duhautechamp, t. v., p. 271.

‡ Duhautechamp, t. v., p. 268.

be made three at a time,—in December, 1719, March, 1720, and June, 1720.\*

During the time that the *cinq-cents* were being launched upon the market, the eagerness of the public to obtain them was so great that the street on which the offices of the company were situated was thronged with carriages and crowded with people. 500 livres in *billets d'état* would secure a certificate of one payment on a new share, with all its chances of rise, the market price of full paid shares being 8,000. The old shares were, as a consequence, freely offered for sale for purposes of conversion; and in the early part of October, at a time when new shares were daily rising in value, old shares fell from 8,000 to 4,000 livres. Forbonnais regards this decline as

\*In this connection, a glance at the situation may be interesting. The several issues of stock were upon the following terms:—

Date of Issue.	Number of Shares.	Rate of Subscription per Share in Livres.	Terms of Payment.	Capital in Livres.
Original Stock,— 1718, } Mères,	200,000	500	Billets d'état @ 30.	100,000,000
Second Issue,— June, 1719, } Filles,	50,000	550	{ Premium at subscription. Capital in 20 monthly instalments.	27,500,000
Third Issue, } July, 1719, } Petites-filles,	50,000	1,000	Payable 5% a mo.	50,000,000
Fourth Issue,— Sept. 13, 1719, } Sept. 28, 1719, } Cinq-cents, Oct. 2, 1719, }	300,000	5,000	Payable 10% a mo.	1,500,000,000
	600,000			1,677,500,000
Oct. 4, 1719, Unauthorized,	24,000			

Amount which the company had received up to the middle of October, 1719, assuming all dues for subscriptions to have been paid:—

	Livres.
Original stock (invested in <i>rentes</i> ), . . . . .	100,000,000
Filles (5 monthly instalments and premium), . . . . .	8,750,000
Petites-filles (4 monthly instalments), . . . . .	10,000,000
Cinq-cents (1 monthly instalment) . . . . .	150,000,000
	268,750,000

The student of this subject may perhaps prefer to consult a similar table, prepared by Dutot, which differs somewhat in results (see Daire, p. 912).



inexplicable, and Levasseur calls it a strange intoxication which drew a distinction between shares of the same kind in the same company. It is easy, however, to understand, inasmuch as all dealings in shares were speculative, that those who believed that shares would continue their magic progress upward would prefer the chances for gain on sixteen *cing-cents* rather than on one *mère*.

Law, in his several memorials and letters, had repeatedly pointed out that the progress of the State was seriously hindered by the system of taxation. In the plenitude of his power, he inaugurated several reforms, which added to the popularity of the company. Various important internal improvements were also begun in different parts of the kingdom.\*

On the 24th of October, values had risen so that more notes were needed. One hundred and twenty million had been issued September 12. One hundred and twenty million were furnished now. On the 26th, a decree was issued, ordering a guard of archers to be stationed in the Rue Quincampoix, to protect dealers from thieves and vagabonds, and to preserve order in the crowd. The attention of all Europe was concentrated upon this narrow street, the dwellings in which, from basement to attic, were converted into offices. Provincials and foreigners hurried forward to join in the excitement at the capital, to reach which by the ordinary means of communication

\*August 31, coincident with the redemption of the *rentes*, a number of offices connected with their management were abolished. September 19, the impost on oil, tallow, and cards was suppressed. October 12, the Receivers-General were suppressed. October 28, the duties on grain and vegetables between the provinces was abolished. In November, the company offered to develop the fisheries, without seeking for a monopoly. The tobacco taxes were concentrated in a single duty. The vexatious duties of the city of Paris were in part remitted, and the rest were concentrated into one entry duty. Duhautchamp, t. v., p. 251; *Recueil d'Arrests*, etc., pp. 249, 252. For the list of public works undertaken, and for a graphic description of the revival of trade, the growth of manufactures, and the prosperity of the laboring class, see Levasseur, pp. 181, 182.

arrangements had to be made weeks in advance.\* "In this general fermentation," says Forbonnais, "prices rose to eighteen or twenty thousand livres." The same market quotation is given by Duhautchamp, an eye-witness of the scenes which he describes. These figures cannot be accepted as representing any regular market. Melon,† who was Law's secretary, quotes shares at 9,000 at the end of 1719. Dutot, who was one of the cashiers of the Company of the Indies, says that in the month of November, 1719, people were surprised to see shares rise to 10,000 livres, notwithstanding the fact that in a single week the company put them on the market to the amount of thirty millions, in order to break the price. Law himself, in April, gave 10,000 livres as about the highest point they reached. The causes of this prodigious increase in price Dutot attributes to the union of the several privileges and monopolies in the company, to the lack of other channels for the investment of the funds arising from the redemption of the *rentes*, and, finally, to the fact that the bank loaned, on margins, 2,500 livres a share, at two per cent. interest. According to Forbonnais, Law's efforts were then put forth to prevent too rapid a fall of shares. He was able to sustain the price for a fortnight, but the only result was to aid those who were selling out their shares in order to realize.

During the month of December, several decrees were issued for the purpose of checking the disposition to realize in coin, and to show the continued favor with which the system was regarded by the Court.‡ Decem-

\* "At the end of 1719, the number of provincials and foreigners who had come to Paris, either from curiosity or in order to speculate, was estimated at 500,000." Law: *Son Système et son Époque*, par P. A. Cochut, Paris, 1853, p. 81.

† *Essai Politique sur le Commerce*, par Jean-François Melon. Reprinted in *Daire's Économistes Financiers*.

‡ December 1, it was decreed that creditors could demand payment of debts due them in bank-notes, and all tenders of payment not made in notes

ber 9,\* the monopoly of refining and separating the precious metals was granted to the company. December 21,† bank-notes were fixed at five per cent. above current silver coin, at which rate the bank would exchange notes for silver. Silver could be used thereafter only in payments under 10 livres, and gold in payments under 300 livres. All foreign letters of exchange were ordered to be paid in notes. Even up to the time that this decree was issued, the impossibility of carrying on the enormous speculative business of the Rue Quincampoix in coin had kept notes at a premium of eight to ten per cent. The disposition to realize was, however, so strong that the purpose of this decree is evident. Law foresaw that, unless he could prevent the circulation of coin, it would all be quietly remitted across the border. A further issue of notes to the amount of 360,000,000 livres, perhaps intended to be the last, was made on the 29th of December,‡ bringing the total up to that date to the sum of 1,000,000,000 livres.§

were declared null. Duhautchamp, t. v., p. 277. No more conversions of gold and silver into notes were to be made in Paris; but, to favor the movement of notes in the Provinces, this clause applied to Paris alone. Duhautchamp, t. v., p. 277. A new coinage was also ordered. Forbonnais says it did not take place, but the public belief that the company would receive the benefit of it helped sustain shares. The fears of a general *diminution* caused by a decree, December 10, ordering a *diminution* for pieces of 20 sous, operated in the same way. Duhautchamp, t. ii., p. 156; Forbonnais, t. ii., p. 605. Duhautchamp adds that four decrees, confiscating old gold and silver coin found in the houses of individuals, also helped shares.

\* Duhautchamp, t. v., p. 285.

† *Ibid.*, t. v., p. 290.

‡ *Ibid.*, t. vi., p. 200.

§ The following list shows the actual issues of notes in 1719:—

	Livres.
January 5, . . . . .	18,000,000
February 11, . . . . .	20,000,000
April 1, . . . . .	21,000,000
April 22, . . . . .	51,000,000
June 10, . . . . .	50,000,000
July 25, . . . . .	240,000,000
September 12, . . . . .	120,000,000
October 24, . . . . .	120,000,000
December 29, . . . . .	360,000,000
	<u>1,000,000,000</u>

December 30, 1719, a general assembly of the company fixed the dividends for 1720, in anticipation, at forty per cent. on six hundred thousand shares of the par value of 500 livres each. Shares had declined somewhat at this time; but, if we accept 10,000 livres as the market price, the dividend was at the rate of two per cent., or at the rate of four per cent. on the subscription price of the *cinq-cents*.\* The estimates of the company's income show that a forty per cent. dividend could not have been paid on this capital from current earnings. It is true that, when the dividend was declared, only a small portion of the capital stock was fully paid. On the other hand, however, the company would not be entitled to credit in the estimate of earnings for all the receipts from the various grants until payment should be made for them. Even if the dividend had been legitimate, the outlook for the holder of *rentes* who had not secured an original subscription was not encouraging. An investment of 10,000 livres in *rentes* had secured him an annuity of 400 livres. The 10,000 livres now forced upon him would buy one share in the company, the income from which for 1720 was promised at 200 livres.

At a time when it took as many days to reach Paris from different points in the kingdom as it now takes hours, and at a period when public conveyances destined thither were engaged for weeks in advance, it was manifestly impossible that the *rentiers* should have effected their conversions within the period which had been allowed. Moreover, most *rentiers* had been cut off from whatever advantage was to be had from an original subscription by the system of favoritism which prevailed.†

\* Dutot, in his estimates, includes twenty-four thousand additional shares, which had been issued on the 4th of October, but concerning which no announcement had been made to the public.

† The power which Law possessed to aid speculators made him the most conspicuous person in the kingdom. "I saw him," says Voltaire, "arrive in the Palais Royal, followed by dukes and peers, marshals of France and

We have seen what the result was of purchasing shares at market prices. It is not surprising, then, to learn that, notwithstanding decrees had been issued August 31,\* October 26, and November 9,† 1719, ordering the suppression of the *rentes* and calling upon owners of them to receive the redemption money, many *rentiers* still hesitated to accept the reimbursement. Among the first acts of Law, when he became Controller-General of France, in January, 1720, were several decrees on this subject, issued on the 10th, 12th,‡ and 18th of January, and on the 6th of February.§ The ultimatum offered in the last was the arbitrary conversion into a two per cent. *rente*, if the redemption was not accepted by July 1.

The decree of the 10th of January|| is especially worthy of notice, as it apparently betrays the same desire to foster speculation which is noticeable throughout the decrees of this period; while, according to Law, its purpose was directly the reverse. The reluctant *rentiers* were practically the only class of men of means who had not been tempted into the market. The attempt to

bishops." *Précis du Siècle de Louis XV.* "Law, besieged in his house by suppliants, saw them force his gate, enter from his garden, fall into his study through the chimney." *Mémoires Complètes et Authentiques du Duc de Saint-Simon*, Paris, 1829, t. xvii., p. 355.

Clement quotes from a letter from the Princess Palatine, mother of the regent: "'Law,' says she, 'is followed to the point that he has no rest night or day. The duchess kissed his hand before everybody.'" *Portraits Historiques*, par Pierre Clement, p. 260. "Towards the close there was no getting speech with him without money. The Swiss must be fee'd at his gate, the lackey for admittance into his ante-chamber, and the *valets de chambre* for the privilege of access to his presence chamber or closet." *Memoirs of Charles Lewis, Baron de Pollnitz*, London, 1739, vol. ii., p. 244.

\* Duhautechamp, t. v., p. 233.

† The decrees of October 26 and November 9 are both alluded to in the decree of February 6, in the preamble. Duhautechamp, t. vi., p. 15.

‡ Duhautechamp, t. vi., p. 3.

§ Decree of February 6. Duhautechamp, t. vi., p. 15. That of January 18 is alluded to in the preamble.

|| Levasseur, p. 195.

force the conversion of their *rentes* into *actions rentières* or *actions intéressées*\* had failed. By this decree, shares were offered at 11,000 livres, 1,000 livres cash and 10,000 in six months' time. As an investment, there was evidently no special inducement for the *rentier* to subscribe for these *primes*, which were known in the market afterwards as the *anciennes primes*.† They would net him less than two per cent.; but, with his 11,000 livres, there was an opportunity afforded to secure eleven *primes* instead of one share, and thus to join the mob of speculators. Duhauchamp alludes to this decree without giving the date, and places it in chronological sequence, as if it had been issued in February. He supposes the motive for it to be an intention to stimulate speculation, and says it failed because the ground had already been covered by dealers in contracts of the same character. It was in consequence of this failure, he says, that February 11 ‡ a decree was issued which thereafter forbade individuals to deal in contracts for future delivery, and reserved this privilege exclusively to the company. Dealers evading this decree by antedating their contracts, this was forbidden by decree of February 20; § but even then, according to Forbonnais, the forbidden trade was continued by parole contracts.||

\* Having a guaranteed income and also participating in the general profits.

† According to Duhauchamp, this issue was known in the market under the name of *Polices de la Compagnie des Indes*, t. iii., p. 43.

‡ Duhauchamp, t. vi., p. 21.

§ *Ibid.*, t. vi., p. 30.

|| The rise of the system, the sudden increase of the circulating medium, and the rapidity with which property changed hands during this period brought in their train prodigal expenditure and extravagant display. The speculators came to be known as Mississippians; and their language in their dealings, concerning *mères* and *filles*, *polices* and *primes*, *cinq-cents* and *petites-filles*, intelligible only to those familiar with the market, was called the language of the Mississippians. Paris was flooded with pamphlets and pasquinades, with sonnets, satires, and cartoons. The titles of many pamphlets in English, Dutch, and French will be found in Mr. Winsor's editorial note to chap. i., vol. vi., *Narrative and Critical History of America*. Professor Dunbar has given me the following titles, procured at the British Museum: *Mr.*

I have said that the apparent purpose of this decree was to foster speculation ; and, when this apparent purpose is corroborated by the opinion of one who was on the spot, it seems almost conclusive. Yet, if we accept Law's statement, this conclusion would not be just. He asserted positively that he offered these *primes* with a view of checking the rise of the stock. "I did what I could to hinder people from buying futures, in the hope that shares would rise. I even told them that I would check the rise at 9,000 livres ; and, to convince them, I proposed to the company to receive 1,000 livres in *primes*, and to enter into an undertaking to deliver shares at 10,000 livres." So many presented themselves, he adds, that the clerks could not write the certificates. "We were obliged to have them printed. They brought 300,000,000 livres to the treasury."

The position of affairs which confronted Law at this time was not encouraging. The high prices of shares towards the end of 1719 had started people in the process of realizing. He apparently made up his mind that, if the public would not sustain the system through the market, he would try to maintain it by force. There had been, during the latter part of 1719, several confiscations of old coin which had been withheld when a recoinage was ordered.\* A decree of the 20th of January, 1720,† authorized the search of all houses, even those of secular and regular religious communities for coin which might have been concealed there. In addition to such forcible

*Law's Character Vindicated*, by William Friendly (pseudonym). *Le Secret du Système de M. Law dévoilé ; en Deux Lettres écrites par un Duc et Pair de France à un Milord Anglais*, La Haie, 1721. This pamphlet is quoted by Dutot. *A Letter to Mr. Law upon his Arrival in Great Britain* (in defence of his projects in France), 2d ed., London, 1721. *The Memoir of the Great Mr. Law*, by — Gray, a Scots Gentleman.

\* See a decree ordering the confiscation of gold and silver coin, seized while in possession of one Boucher, a laborer living in the village of Lunnigny. *Recueil d'Arrests*, p. 238. See also Duhautechamp, t. ii., p. 157.

† *Recueil Général des Anciennes Lois*, t. xxi., No. 189, p. 175.

measures as these, it was determined to extend arbitrarily the circulation of the bank-notes. In several of the previous decrees on this subject, clauses had been introduced to limit their application to cities in which the bank had offices. Throughout the provinces there were places where the people were reluctant to accept the bank-notes. On the 28th of January, it was decreed that bank-notes should have currency throughout the kingdom.\* Levasseur's table shows that there had been *diminutions* of the coin in July, September, and December, 1719, another January 1, 1720, and an *augmentation* January 22.† By the decree of January 28,‡ another *diminution* was ordered, and the removal during February of coin and bullion from cities in which there was a mint was forbidden.§ The company was authorized to make domiciliary visits in all houses and palaces of individuals or communities, and any specie seized therein was to be confiscated for the benefit of the informer.

This decree appears to have been rigidly enforced, and to have caused for a time a deplorable condition of affairs.‖ Those who had coin in their possession lived in constant fear; and abominable instances of treachery constantly came to light, which showed that neither ties of friendship nor of affection could be relied upon for protection against the terrible temptation. On the 4th of February,\*\* the wearing of diamonds, pearls, or precious stones was, after the first of March next, forbidden, under pen-

\* Duhautechamp, t. vi., p. 7, No. 55, § 3.

† Levasseur, p. 398. The details of these decrees are also given by Levasseur, p. 204.

‡ Duhautechamp, t. vi., p. 4.

§ *Ibid.*, t. vi., p. 6, No. 55, § 3.

‖ "They excited, encouraged, paid informers. Valets betrayed their masters. Citizen spied upon citizen. This made my Lord Stair say that there could be no doubt of Law's Catholicity, since he established the Inquisition, after having already proved transubstantiation by changing paper to money." *Mémoires Secrets sur les Règnes de Louis XIV. et de Louis XV.*, par Duclos (Petitot and Monmerqué's collection), t. lxxvi., p. 408.

\*\* Duhautechamp, t. vi., p. 11.



alty of confiscation and 10,000 livres fine.\* On the 18th,† goldsmiths were forbidden to manufacture or offer for sale vessels of gold or silver, except a few articles, the weight of which was specified. On the 19th,‡ a decree was issued prohibiting any person, and even any ecclesiastical community, from keeping more than five hundred livres in coin, and forbidding all persons or communities except goldsmiths and jewellers to have in their possession any articles of gold or silver, seizures and confiscations being for the benefit of the informer. All payments of 100 livres and upward were to be made in bank-notes. January 29,§ a decree appeared offering inducements which amounted to a reduction of twenty-five per cent. for the payment of taxes in bank-notes. February 6,|| the bank was authorized, under the nominal pretence of supplying the place of indorsed notes, to issue notes to the amount of 200,000,000 livres. February 9,\*\* all legal proceedings which had arisen or which might arise concerning bank-notes were ordered to be brought before the council. February 11,†† the decree was issued which forbade transactions in “futures” between individuals, and reserved to the company the exclusive right to sell them. February 19,‡‡ all creditors of the State were ordered to be immediately paid.

On the 23d of February,§§ the Royal Bank, with all its privileges, was absorbed by the company, and its circula-

\*“Every day, we saw new decrees come out, which contradicted each other. The possession of precious stones was forbidden; and Law, being at council, stated in a loud voice that in less than three months he would by this prohibition make more than 60,000,000 enter the kingdom.” *Mémoires du Maréchal de Villars* (Petitot et Monmerqué), t. lxx., p. 45.

† Duhautechamp, t. vi., p. 23.

‡ *Recueil Général des Anciennes Loix*, etc., Decree of Council, February 19, t. xxi., p. 108, note. Decree of February 27, in full, to same effect, Duhautechamp, t. vi., p. 44. See also *Recueil Général*, t. xxi., p. 177.

§ Duhautechamp, t. vi., p. 9.

|| *Ibid.*, t. vi., p. 13.

\*\* *Ibid.*, t. vi., p. 18.

†† *Ibid.*, t. vi., p. 21.

‡‡ *Ibid.*, t. vi., p. 28.

§§ *Ibid.*, t. vi., p. 31.

tion was guaranteed by the king. Law was not prepared to say that he would issue no more notes. The number which had already been issued had taxed the energies of the printers and the clerks. To relieve the former, engraved notes had been abandoned, and the ordinary press had been substituted. To relieve the latter, the number of clerks authorized to sign had been from time to time increased, indistinct signatures had been especially authorized, and ten-livre notes had been put forth in such quantities that it had become necessary to issue them without signature. These proceedings had created distrust. To produce an appearance of conservatism, and at the same time reserve the power to issue notes,—a power which, according to Savari,\* it had been distinctly promised in the decree of December 29, 1719, should not be exercised again,—it was provided that no more notes should be issued, except by virtue of decrees of the council on request of the company, made at a general assembly of the shareholders.

So far as the acquiescence of the government in the proposals of Law were concerned, the system had reached a development which must have been far beyond even the dreams of its author. His company now had charge of the Royal Bank, with all its privileges. The royal funds were in its custody; it was the collector of all the taxes; and, with scarce an exception, it controlled all the commercial monopolies of France. Law himself was at the head of the finances of the kingdom. Even before the organization of the General Bank, he had announced that, “if all the French and foreign traders should distrust his project, it would not prevent him from succeeding.” But he had now thrown theories to the winds, and had committed a series of violent acts, some of which he had specifically denounced in his memorials as impracticable and harmful. “I will compel confi-

\* *Encyclopédie Méthodique*, t. lvi., “Commerce,” i., “Banque,” p. 197.

dence," he had asserted. And now, at a time when he could command it least, confidence was what he needed most; for to the grant of the Royal Bank was attached a condition which he could not fulfil without the aid of the public. As a consideration for the transfer, the company was to take the royal shares in the Company of the Indies, amounting to one hundred thousand, and to pay for the same 900,000,000 livres, 300,000,000 in 1720 and 600,000,000 in ten years thereafter, at the rate of 5,000,000 a month. To produce this sum, *actions rentières*, at the rate of two per cent., were authorized to be issued, to the extent of 500,000,000 of capital. The bank was at the time loaning money on shares at two per cent. If, under these circumstances, Law could not force his three per cent. shares on the unfortunates whose *rentes* had been redeemed, how could he expect to float a two per cent. stock?

Among the conditions which the directors of the company themselves suggested at the time of the transfer of the bank was one to the effect that the offices at the bank for the purchase and sale of shares should be closed. In the face of this, according to Piganiol de la Force,\* the company offered for sale on the last day of February rights for shares for 5,000 livres cash and 5,000 more in the course of the year.†

The juncture of the bank with the company produced a slight upward movement of shares, which was soon checked by the persistent efforts of the realizers, who were anxious to convert their shares into any form of property, even at the high prices which prevailed. On the 27th,‡ a decree was issued which stated that there had been coined 1,200,000,000 of money (the rate at

\* *Introduction à la Description de la France*, par M. Piganiol de la Force, troisième édition, Paris, 1752, t. ii., p. 264.

† Levasseur, 213. These were known as the *nouvelles primes*.

‡ Duhautchamp, t. vi., p. 44.

that time being 60 livres to the marc), but that many people who had made fortunes kept the coin locked up. It was therefore ordered that no person or community should keep over 500 livres in specie. The possession of gold or silver bullion was forbidden; and the payment of sums of 100 livres and upwards, otherwise than in bank-notes, was prohibited. The issues of notes up to this time amounted to exactly 1,200,000,000 livres. The coincidence of the amounts of coin and notes was probably not mere chance.\*

March 5 appeared a decree the alleged object of which was to bring all subscriptions, contracts for futures, and shares into one uniform style, and also to *augment* the coin.† It was ordered that all loans of the bank should be called in at maturity. This order was peremptory, and the inference is unavoidable that the bank had no other business than loans on margins. 450,000,000 livres is the amount given by both Melon and Dutot as having been loaned on shares, 2,500 livres on each share at two per cent. interest. Of this amount, Dutot says there was then outstanding 174,000,000 livres. An office was established for the interchange of shares and bank-notes at a fixed price of 9,000 livres a share. Four payments had been made on the *cinq-cents* of 500 livres each, making 2,000 livres on each share. 3,000 livres remained to be paid. The rise in the market price of the stock belonged to the subscribers, so that 2,000 livres paid in represented with the profit 6,000 livres. On that basis, partial payments

\* "In a State," said Law, "where the people are not accustomed to credit [as was the case in France at the epoch of the system], we should at first be content to double the amount of the circulating medium by adding to the specie an equal value in notes." *Cours d'Économie Politique*, par Henri Storch, St. Pétersbourg, 1815, t. vi., note 16, p. 147.

Steuart calls attention to the singular fact that the French financiers, in their speculations as to the relations of the notes to coin, based all their arguments upon the coin supposed to be in the kingdom, without reference to the question whether it was in possession of the bank or not.

† Duhautechamp, t. vi., p. 49.

were to be received ; and prices were also adjusted for the issues of January 10 and February 29, called the old and the new *primes*, and holders of subscriptions and contracts were to convert them into shares on the basis of 9,000 livres a share.

I have elsewhere called attention to the fact that the shares were spoken of as payable to bearer. So long as the price of shares was regulated by the market, the form in which they were drawn up was not material. Their influence was no more and no less than that of any stock. With a fixed price attached to them, they became at once a part of the circulating medium, if not of the kingdom, at least of Paris. They were not receivable in payment of taxes, they were not made a legal tender, but they were convertible at will at a fixed price into bank-notes which fulfilled those purposes. Dutot calls attention to that phase of this decree. He says they — the shares — “became proper to fulfil the uses of money.” In another place, he says, “These notes” (*billets*) “had the property of money. They had all its functions: their value was fixed, but difficult to sustain.”\* Together, the bank-notes and shares made about 5,000,000,000 livres of paper money, and shares convertible at a fixed price,† in circula-

\* See on this point *Annales Politiques de feu Monsieur Charles-Irénée Castel, Abbé de Saint-Pierre*, Londres, 1758, Seconde Partie, p. 211.

† Dutot, *Économistes Financiers*, p. 844, says:—

	<i>Livres.</i>
There were at the end of February, 1720, at average market rates, shares in circulation to the value of . . . . .	4,891,560,000
The notes actually in circulation at the same time he estimates at . . . . .	1,089,872,490
	5,981,432,490
He estimates ( <i>ibid.</i> , p. 846) the amount remaining due on these shares at . . . . .	1,004,500,000
This would leave in circulation . . . . .	4,976,932,490

A rough estimate can be made, as follows:—

Total number of shares, . . . . .	624,000	
In the possession of the bank, . . . . .	100,000	
In circulation, . . . . .	524,000 at 9,000 livres	4,716,000,000
Notes authorized, . . . . .		1,200,000,000
		5,916,000,000
Deducting amount due on shares, . . . . .		1,004,500,000
		4,911,500,000

Levasseur, in a note (p. 214), says that Dutot includes, in his estimate of the amount unpaid on the shares, 100,000 shares, which the company was about

tion at the date of this decree,—an amount to be shortly increased by nearly 1,500,000,000 livres issued by the bank. As for specie, the coin was *augmented* by one-third, and the 1,200,000,000 livres of specie became nominally 1,600,000,000. Steuart says that what there was in the bank passed away in less than a week.

The decree of the 5th of March has been the subject of interpretations differing widely according to the prejudices of writers. According to Daire, it was the keystone of the system, and fully realized Law's economic thought. It transformed the bank into a reservoir of the circulating medium, which the paper of the Company of the Indies would keep at any height, since it served both as feeder and outlet. Should money become too abundant, it would find its way to the bank for conversion into shares. Should the reverse be the case, shares would be converted into notes. Dutot says the decree was a mortal blow to the system. Law was confronted with the necessity of sustaining either notes or shares, but was unable to protect both. Shares at that time represented more than fourfold the value of the notes, and he chose the shares. In taking this step, Dutot thinks a mistake was made. Law was responsible for the notes; but Dutot does not think him responsible for the speculation, intimates that the regent must be held responsible for the decree, and says that it was counselled by enemies of the system. Forbonnais says the decree absolutely decided the fall of the system. He thinks the purpose was to sustain the promised dividend by absorbing into the treasury shares on which the dividend would then not have to be paid, and that Law was attached to the principle of

to purchase, on which, he says, there were due 300,000,000 livres. This must refer to the shares held by the Royal Bank, purchased at the time of the consolidation. As these were original shares in the Company of the West, they must have been fully paid, and were therefore properly omitted by Dutot. Levasseur's purpose in collating these figures was different from mine; but, if his criticism were just, it would add 300,000,000 livres to the values in circulation.

the multiplication of wealth, and believed that the shares would assume the property of money in circulation. Louis Blanc denounces the decree as a crime, which has unjustly been imputed to Law, and believes it was issued in the interest of the Court. The decree announcing that no more shares would be bought and sold saved the system by ruining several great lords. The decree of March 5 saved several great lords by ruining the system.

In February, Law had published in the *Mercury* a letter nominally in reply to one from a *rentier*, who complained of the forced redemptions. According to Duhautechamp, this letter produced a decided effect. It reconciled many discontented *rentiers*, and induced them to receive their redemptions. In March, Law again appealed to the people in the same way.\* This time, his letter was a call upon the public to sustain the system, and contained a justification of the violence which had recently marked his course. Coin, he said, ought not to be locked up in private vaults. It ought all to be brought to the royal treasury,—not by way of a loan, for the interest would then be a charge on the king; not by way of taxes, for it is to the king's advantage to remove them; but simply on deposit, only to be removed as needed. If objection were made to this that the king would seize it, was it not safer in this form, which gave the king a credit that increased the deposits tenfold, than if the government were sustained on the old principle of forced loans and arbitrary taxes? The fury of the realizers came from the extraordinary rise of the shares. It was not appreciated by them that the shares did not represent current coin, but mere capital. True, the shares surpassed in value all the gold and silver that would ever be in the kingdom. So the houses in Paris represented more than all the coin in the kingdom. So the lands in France represented more gold than was shut

\* February letter, Daire, p. 608. March letter, Daire, p. 610.

up in the mines of Peru. Was their value chimerical for that reason? Some regarded the decrees about silver as a sort of violence, and said the credit furnished by the king was a forced credit. Such persons overlooked the fact that this was one of the conditions of a new establishment, which would ultimately conquer the confidence due to it from the nature of its principles. The system was supposed to have cause for fear from despotic power, but despotic power would support it. Disquiet and agitation were what it had to fear. The public was the arbiter of its future, and the public held it back. The laws complained of were necessary to save men from themselves.

This letter was not received with favor. Men cried out against its author, whom they called a disturber of the public peace. "The first day after the issue of the decree," says Melon, alluding evidently to the decree of March 5, "there were more sales than purchasers. The following days were very different. The bank was unable to respond to the sellers. The bank-notes could not be exhausted, because they could be furnished in proportion to the demand; but, notwithstanding the decrees against keeping silver, the silver was soon exhausted." From this, it is plain that by this decree Law furnished weapons to his enemies. On the 11th of March,\* a decree was issued, the alleged purpose of which was "to procure from subjects a diminution of the price of goods, to sustain public credit, to facilitate circulation, to increase commerce, and to favor manufactures." This was to be accomplished by successive *diminutions* of the silver coin extending through the year. Only sixths and twelfths of crowns and silver livres were henceforth to circulate; gold was demonetized; and from the 1st of May it was forbidden to any person to have in possession gold coin of any sort, or any gold bullion, under penalty of confis-

\* Duhautechamp, t. vi., p. 55.



cation. The possession of silver coin or bullion, except the small coin, was also forbidden after January, 1721. French writers note the remarkable fact that by this decree a new coinage of silver louis, which had been ordered to be issued in the beginning of March, to circulate for three livres each, was subjected to these future *diminutions* even before the coins themselves were issued. The satirists, who were now hurling their shafts of wit at the tottering system, and who ridiculed each step that was taken in caustic couplets and stinging epigrams, at once christened these coins the "still-borns." The fears of denunciations and of impending *diminutions* in silver produced some result. Between the 7th and 30th of March, 44,696,190 livres in coin were drawn into the bank. This was but a small percentage of the total coin which should then have been in circulation, but it was wrung by fear from the hands of a people who were anxious to retain it.

The purchase of shares by the company, as provided for in the decree of March 5, involved the use of a large amount of notes. To furnish it, the following issues were made by the bank: March 26, 300,000,000 livres; April 5, 396,000,000 livres; April 19, 438,000,000 livres.\* This made a total issue of 2,334,000,000 livres; but on the 1st of May a further issue of 362,400,000 brought the total amount up to 2,696,400,000 livres, as given in the final statement of the bank.†

While these events were occurring, a few decrees of

\* See statement in Duhautechamp, t. vi., p. 200. In the decree authorizing the last issue (see *ibid.*, p. 73), it was stated that the amount, added to 762,000,000 livres of 1,000, 100, and 10 livre notes already issued, would "make a total sum of 1,200,000,000 livres." The statement was disingenuous, as Forbonnais notices; but he seems to overlook the fact that 1,134,000,000 livres, issued in notes of 10,000 livres, were omitted. The ten-livre notes had been issued without signature, but were ordered to be redeemed for safety, by decree of February 23. *Ibid.*, p. 31. 17,000,000 livres were issued, however, April 19.

† Forbonnais, t. ii., p. 633, puts the total issue above 3,000,000,000. This was of course independent of counterfeit notes, the number of which cannot be estimated.

minor importance, affecting the system, were issued. By decree of council April 6,\* all stipulations for payment in coin were declared to be null and void. May 16,† the company was authorized to offer four per cent. life *rentes*, to the extent of 100,000,000 capital. This attempt to raise money at four per cent. when the bank was lending at two per cent. provoked criticism.

On the 21st of May, 1720,‡ a decree was issued reducing the value of shares by a series of successive *diminutions* from 9,000 livres—the rate at which they were then received by the company—to 5,000 livres on the 1st of December. Notes of the bank were to be reduced to one-half their nominal value in the same manner. The preamble of the decree opens with a comparison between the condition of affairs at the death of Louis XIV. and that at the date of the decree, recites the advantages which France had gained from the system, asserts that, notwithstanding all these benefits, persons of evil designs were endeavoring to overturn it, and had compelled the issue of the decree of March 5, in which it was sought to sustain the system by an *augmentation* of the coin in circulation. This *augmentation* provided for the debtors. It remained, then, to provide use for the sums to be reimbursed to the religious communities and foundations and others; and this was done by the decree of March 11, ordering a reduction in the price of specie. This would cause a reduction in the price of real estate, goods, and merchandise; and shares and notes ought to participate in this. They would therefore be reduced in proportion, and would thus afford an opportunity to use the reimbursements.

This decree was the end of the system. Stuart says: “The *arrêt* was no sooner published than the whole paper fabric fell to nothing. The day following, the 22d of

\* *Recueil Général des Anciennes Lois*, etc., p. 108, note.

† *Ibid.*

‡ Duhauchamp, t. vi., p. 95.

May, a man might have starved with 100,000,000 in his pocket." Melon considers the attempt to reduce the dangerous superfluity of values in circulation as founded on reasoning which was, perhaps, solid, but too metaphysical. Dutot says a decree which reduced a "fixed and invariable" currency could not fail to produce consternation. It was calculated to destroy confidence, when confidence was necessary to restore the system. Forbonnais says the step taken was an imprudent one, but cannot be attributed to the enemies of Law. The plan was prepared by Law, and had been submitted to the regent for consideration more than two months before this date. Daire says the opinion that Law was opposed to the decree is probable enough, for it is impossible to see what utility the system could have derived from it. The opinion which prevailed in the market at the time, according to Duhautechamp, was that Law had a plan for retiring notes and substituting coin in circulation. His plan was not adopted; and he himself, as Controller-General, reported the decree, although it was founded on the project of his adversaries.\*

Through the medium of Law's publications, we have a partial means of testing his responsibility for the several decrees, and we gain insight of his methods. In a letter to the *Mercury*, published in April,† he showed the *rentiers* that the system still offered an opportunity for a good investment. Among the first-fruits of the trade with Louisiana which they had already received, he enumerated silk and silver. The recoinage, he said, after the indicated *diminutions*, would bring in ten per cent. on all the coin of the kingdom, and that profit would

\* "Everybody says that Mr. Law did not advise the decree of May 21, and that it was proposed by M. d'Argenson, Keeper of the Seals, M. Le Blanc, Secretary of State, and Abbé Dubois, also Secretary, only to overthrow him." *Journal Historique et Anecdote du Règne de Louis XV.*, par E. J. F. Barbier, Avocat du Parlement de Paris, Paris, 1847, p. 11.

† Daire, p. 615.

be renewed during the nine years of the grant as often as it might be expedient to have a recoinage. The trade in shares he justified, as it kept them at their just value. The increase in value he denominated newly created funds, and said it was necessary to create currency to meet it. The exchange of bank-notes being made indifferently for coin or shares, they were secured by a fund having certain value, whether shares or coin. The notes, he said, being exempt from *diminutions*, ought to be preferred to coin. In May, through the same channel,\* he sought to encourage the *rentiers*. In the course of his letter, he asserted that the credit of a note was only doubtful and its circulation limited, because its acceptance was free. If circulation were compulsory, there might be such a thing as the issue of a note which would never return for redemption. Coined money, he said, was, like paper money, a mere representative of value. From these and many other similar expressions scattered through his works, his responsibility for doctrines whose enforcement would legitimately lead to such arbitrary methods as those contained in the decrees of March 5, 11, and May 21, cannot be denied.

The decree of the 21st of May was so destructive of public confidence that it was revoked on the 27th, but its revocation could not restore confidence. The system was dead. The flounderings of the regent from that time until the second *Visa* are interesting, because they were based upon the curious notions which then prevailed about money, and are worthy of careful study, but they have little to do with the system. Law himself, although not at once discarded from favor, left France in December, 1720, carrying with him, of all the vast sums of which he was at one time master, only 800 livres. The study of the history of the system reveals Law to us as a man of genius, whose wonderful insight enabled him to fathom the marvellous power of credit. He founded a bank

\* Daire, p. 624.

which was in many respects the prototype of our national banks. He familiarized the French with methods of dealings in futures and on margins which are used in speculation to-day. He exhibited inconsistencies in theory and practice, many of which are traceable to his incapacity to recognize the difference between confidence and obedience. He overestimated the power of despotic authority, and underrated the influence in an absolute monarchy of public opinion in money matters. The French were like children in such affairs, and he did not realize how completely the control of children may be lost in a panic. Some of his acts, which were opposed to theories previously maintained by him, were plainly founded upon his belief that the arbitrary power of the regent could override theories. His faith in the power of decrees of council lost him the contest with the realizers. He was apparently responsible for the various edicts and decrees which were issued from the time of the adoption of his system up to and including that of May 21, with the exception perhaps of the decree of April 22, 1719. He retained boundless confidence in himself to the last. His admirers worshipped him, and even his enemies admitted that his intentions were good. The *agioteurs*, chased from the Rue Quincampoix, still uttered their pasquinades. In one of them, the story of the system from its birth to its death was jestingly told : —

My shares which on Monday I bought  
 Were worth millions on Tuesday, I thought.  
 So on Wednesday I chose my abode ;  
 In my carriage on Thursday I rode ;  
 To the ball-room on Friday I went ;  
 To the work-house next day I was sent.





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